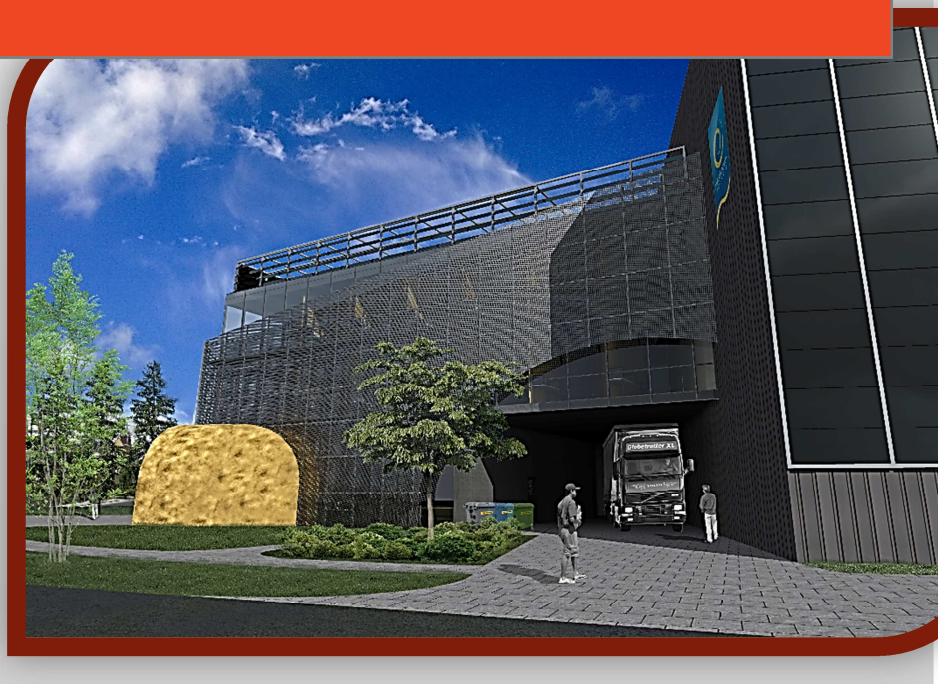
Financial Statements of the Makarony Polskie Group in the Reporting Year 2016



Rzeszów, 21 March 2017

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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.

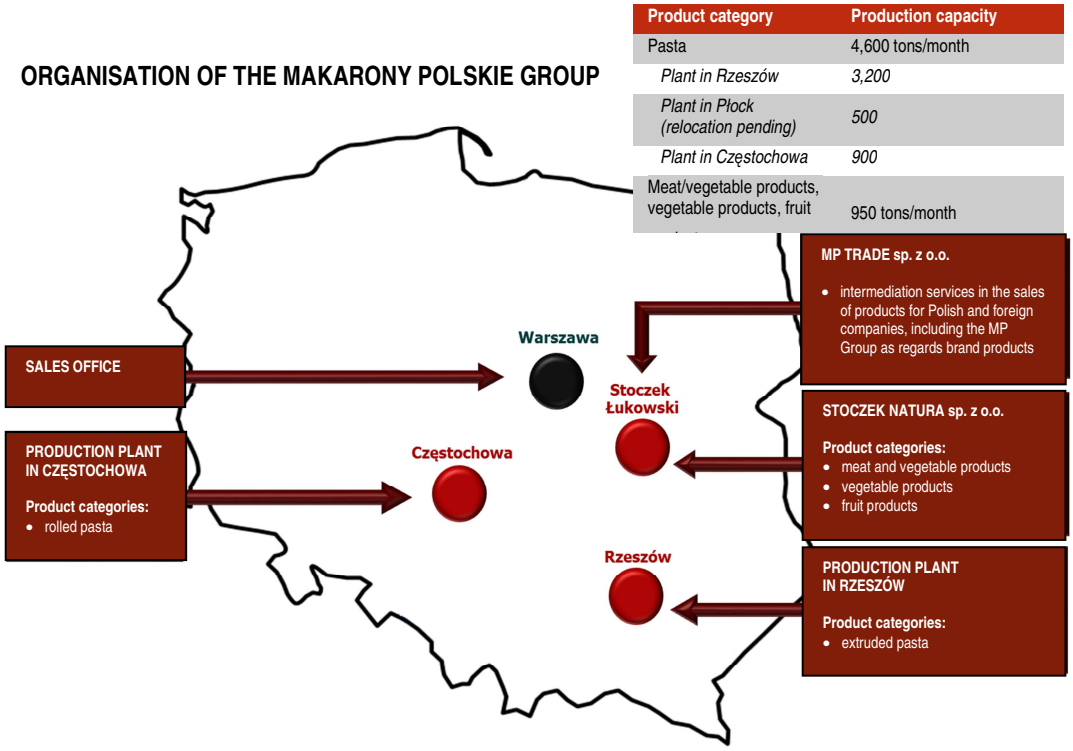
The basic offered pasta brands are Makarony Polskie, Sorenti and Abak (bi-brand with Makarony Polskie). Under the Sorenti brand also pasta sauces are offered.

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.

Changes in the organisation of the Makarony Polskie Group in 2016

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



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

Registration 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.

Headcount at Makarony Polskie Group as at 31 December 2016 was as follows:

Makarony Polskie SA – 121 people,

Stoczek Natura Sp. z o.o. – 46 people,

MP Trade Sp. z o.o. – 29 people.

Management Board of the Parent Company

Since 1 January 2016 to the date of publication of these statements, the Management Board has consisted of one person. The office of the President of the Management Board is held by Mr Zenon Daniłowski.

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

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

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

In accordance with the information possessed by the Company no changes in the status of shares held by the President of the Management Board occurred during 2016 and by the publication date of these statements.

Management Boards of subsidiaries

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

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

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

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

Supervisory Board

From 1 January 2016 to 28 June 2016, the Supervisory Board consisted of:

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

In connection with the end of the sixth term of the Supervisory Board, on 28 June 2016 the Annual General Meeting of the Company appointed the Supervisory Board of the seventh term in the following composition:

- Tomasz Jankowski,
- Marek Rocki,
- Michał Słomkowski,
- Roman Sobiecki,
- Wiesław Wasilewski.

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

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

As at these statements publication date, the Supervisory Board of Makarony Polskie SA consisted of:

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

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

Member of the Supervisory Board	2016		2015	
	Number of shares	Nominal value	Number of shares	Nominal value
Michał Słomkowski*	0	0	–	–
Wiesław Wasilewski	5,000	15,000	5,000	15,000
Marek Rocki	0	0	0	0
Roman Sobiecki	0	0	0	0
Samer El Waziri*	0	0	–	–

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

In accordance with the information possessed by the Company no changes in the status of shares held by the Members of the Supervisory Board occurred during 2016 and by the publication date of these statements.

General Meeting of Makarony Polskie SA

The share capital of Makarony Polskie SA as at 31 December 2016 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.

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

Shareholder	Shares in the share capital		Votes in the General Meeting	
	number	% share	number	% share
The Group of Praska Giełda Spożywcza SA, of which:	**1,911,594**	**20.66%**	**1,911,594**	**20.65%**
Praska Giełda Spożywcza SA (formerly: Agro-Technika SA)	*1,650,000*	*17.84%*	*1,650,000*	*17.83%*
Zenon Daniłowski	*140,000*	*1.51%*	*140,000*	*1.51%*
Polskie Smaki Sp. z o.o.	*121,594*	*1.31%*	*121,594*	*1.31%*
Raya Holding for Technology & Communications S.A.E., of which:	**1,793,406**	**19.39%**	**1,793,406**	**19.39%**
Madova Sp. z o.o.	*1,793,406*	*19.39%*	*1,793,406*	*19.39%*

Elżbieta and Grzegorz Słomkowski, of which:	**1,183,040**	**12.79%**	**1,183,040**	**12.79%**
Z.P.H. „ELPAST" Elżbieta i Grzegorz Słomkowscy s.c.	*1,169,750*	*12.65%*	*1,169,750*	*12.65%*
Grzegorz Słomkowski	*13,290*	*0.14%*	*13,290*	*0.14%*
Krzysztof Moska	**931,284**	**10.07%**	**931,284**	**10.07%**
Leszek Sobik	**509,541**	**5.51%**	**509,541**	**5.51%**
Other shareholders	**2,921,206**	**31.59%**	**2,921,206**	**31.59%**
TOTAL	**9,250,071**	**100.00%**	**9,250,071**	**100.00%**

Changes in the shareholding in 2016

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

- Mr Krzysztof Moska informed that on 18 March 2016, as a result of acquisition of 7,819 shares of Makarony Polskie SA within a session transaction at the Warsaw Stock Exchange, he exceeded the threshold of 10% share in the total number of votes at the General Meeting of the Company. Before the transaction Mr Krzysztof Moska held 932,465 shares of the Company, representing 9.98% share in the share capital of the Company and 9.98% of the total number of votes in the General Meeting of the Company, i.e. shares of the Company entitling him to exercise 932,465 votes. After the transaction Mr Krzysztof Moska holds 931,284 shares of the Company, representing 10.07% share in the share capital of the Company and 10.07% of the total number of votes at the General Meeting of the Company, i.e. shares of the Company entitling him to exercise 931,284 votes. At the same time Mr Krzysztof Moska informed that he had no subsidiaries that would hold the shares of the Company and there were no people referred to in Article 87.1. 3.c of the Act on Public Offering. He also declared that within the period of 12 moths of filing this notification he does not exclude any acquisition or disposal transactions with regard to the Company shares.
- Bewa Sp. z o.o. and Madova Sp. z o.o. sent a notification concerning a change in number of shares held by Bewa in the share capital and in the total number of votes at the General Meeting ("GM") of Makarony Polskie SA in Rzeszów as well as a change resulting in exceeding by Madova a 15% share in the share capital and in the total number of votes at the General Meeting of the Company. The change resulted from the disposal on 7 September 2016 of 630,000 ordinary bearer shares of Makarony Polskie SA held directly by Bewa that represented 6.81% in the share capital and the total number of votes at the General Meeting in favour of Madova

(a subsidiary of Bewa, in which Bewa holds 100% of the share capital and votes at the General Meeting); on 8 September 2016 of 629,000 ordinary bearer shares of Makarony Polskie SA held directly by Bewa that represented 6.80% in the share capital and the total number of votes at the General Meeting in favour of Madova; on 12 September 2016 of 534,406 ordinary bearer shares of Makarony Polskie SA held directly by Bewa that represented 5.78% in the share capital and the total number of votes at the General Meeting in favour of Madova. As a result of the transactions, Bewa does not hold any ordinary bearer shares of Makarony Polskie SA directly but indirectly (through its Madova subsidiary) it holds 1,793,406 ordinary bearer shares of Makarony Polskie SA entitling to the same number of votes, representing 19.39% in the share capital and in the total number of votes at the General Meeting. The transactions of the said shares disposal by Bewa in favour of Madova (a subsidiary of Bewa) mean that at the same time Bewa acquired the said shares indirectly in accordance with the applicable regulations of the Act on Public Offering. Before the aforementioned transactions, Bewa did not hold indirectly any shares of Makarony Polskie SA, but it held directly 1,793,406 ordinary bearer shares of Makarony Polskie SA entitling to the same number of votes, representing 19.39% in the share capital and in the total number of votes at the General Meeting. Before the aforementioned transactions, Madova did not hold either directly or indirectly any shares of Makarony Polskie SA, whereas after the transactions it holds directly 1,793,406 ordinary bearer shares of Makarony Polskie SA entitling to the same number of votes, representing 19.39% in the share capital and in the total number of votes at the General Meeting.

– Bewa sent a notification on a change in holdings exceeding 15% of the total number of votes by at least 15% of the total number of votes in Makarony Polskie SA. The change resulted from the transaction of 13 October 2016 concerning the disposal of 100% of the share capital and votes at the General Meeting of Madova Sp. z o.o. with its registered office in Warsaw, which holds directly 19.39% in the share capital and in the total number of votes at the General Meeting of Makarony Polskie SA. As a result of that transaction, Bewa does not hold either directly or indirectly any ordinary bearer shares of Makarony Polskie SA. Before the aforementioned change, Bewa did not hold directly any shares of Makarony Polskie SA but held indirectly – through its Madova subsidiary – 1,793,406 ordinary bearer shares of Makarony Polskie SA entitling to the same number of votes, representing 19.39% in the share capital and in the total number of votes at the General Meeting. There are no other subsidiaries of Bewa holding the shares of Makarony Polskie SA.

– Raya Holding for Technology & Telecommunications S.A.E. with its registered office in Giza (Egypt), a company registered in Egypt under the number 127574 (hereinafter referred to as "Raya") sent a notification about an indirect acquisition by Raya, through Madova Sp. z o.o. with its registered office in Warsaw, of 1,793,406 ordinary bearer shares of Makarony Polskie SA entitling to the same number of votes at the General Meeting of the Company (hereinafter referred to as the "General Meeting"), representing 19.39% shares in the share capital of the Company and 19.39% of the total number of votes at the General Meeting. The said indirect acquisition of shares was a result of acquiring by Raya, on 14 October 2016 – as a result of conclusion of the shares disposal agreement on 11 October 2016 – of 100% shares in Madova being a shareholder of Makarony Polskie SA holding the number of shares referred to above (hereinafter referred to as the "Acquisition"). In connection therewith, Raya became the parent company of Madova within the meaning of Article 87.5.1 of the Act, in connection with Article 4.14 of the Act. Prior to the acquisition, Raya had no shares of Makarony Polskie SA, either directly or indirectly As a result of the acquisition, Raya holds directly 1,793,406 ordinary bearer shares of Makarony Polskie SA entitling to the same number of votes at the General Meeting, representing 19.39% shares in the share capital of the Company and 19.39% of the total number of votes at the General Meeting. Apart from Madova, there are no other subsidiaries of Raya that would hold the shares of Makarony Polskie SA and there are no such subsidiaries of Madova.

The Company has no other information which would reflect any changes in the number of shares possessed by major shareholders (holding stakes of more than 5%) in 2016.

Changes in the shareholding after the end of 2016

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

As a result of a disposal transaction on the OTC market made through a brokerage office on 17 February 2017, PGS disposed of a stake of 350,000 shares of Makarony Polskie SA entitling to the same number of votes at the General Shareholders Meeting (hereinafter referred to as the "General Meeting"). Before the transaction PGS held directly and indirectly together with its subsidiaries (Polskie Smaki Sp. z o.o.) 2,121,594 shares of the Company representing 22.93% of the share capital of the Company, authorising to 2,121,594 votes at the General Meeting (22.93% of the total number of votes), of which

PGS holds: directly – 2,000,000 shares, which represents the share of 21.62% in the share capital of the Company, entitling to 2,000,000 votes at the General Meeting (21.62% of the total number of shares); indirectly (through Polskie Smaki Sp. z o.o.) – 121,594 shares, which represents 1.31% in the share capital of the Company, entitling to 121,594 votes at the General Meeting (1.31% of the total number of votes). At the present moment, PGS holds directly and indirectly 1,771,594 shares representing 20.66% of the share capital of the Company, authorising to 1,771,594 votes at the General Meeting and being 19.15 % of the total number of votes, of which PGS holds: directly – 1,650,000 shares, which represents the share of 17.83% in the share capital of the Company, entitling to 1,650,000 votes at the General Meeting (17.83% of the total number of shares); indirectly (through Polskie Smaki Sp. z o.o.) – 121,594 shares representing 1.31% in the share capital of the Company (1.31% of the total number of votes).

The Company has no other information which would reflect any changes in the number of shares possessed by major shareholders (holding stakes of more than 5%) after the end of the financial year 2016.

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

Publication and approval of financial statements

These consolidated financial statements have not been subject to audit by an entity authorised to audit financial statements. The Management Board approved the statements publication on 21 March 2017.

The financial statements of the Makarony Polskie Group for 2015 was approved by Resolution No. 6 of the Annual General Meeting of Makarony Polskie SA on 28 June 2016.

Basis for preparing the statements

Declaration of compliance and basis for preparing the statements

These consolidated financial statements have been prepared based on the International Accounting Standards ("IAS") 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"), published and binding at the moment of preparing these short consolidated financial statements. As at the date of approving these statements for publication – in consideration of the pending EU process of implementing the IFRS standards and the activity of the Group with regard to the accounting principles applied by the Group – there is no difference between the IFRS standards which came into force and the IFRS standards approved by the EU.

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 of 2009 No. 33, item 259).

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 purchase transactions of assets, Abak Sp. z o.o. and investment land.

Functional and presentation currency

The currency for the Group measurement 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.

Basis for preparing the statements

Applied accounting policy and basis for preparing the statements

The accounting principles applicable to the consolidated financial statements comply with those applied in preparing the annual financial statements for the year ended 31 December 2015 (published on 18 March 2016).

The term of the Group companies is unlimited. The consolidated 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 and the subsidiaries prepared financial statements in accordance with IAS/IFRS.

New standards and interpretations

Applied new and amended standards and interpretations that came into force on 1 January 2016

Specific benefits schemes Amendments to IAS 19 "Employee Benefits". Amendments to IAS 19 "Employee Benefits" were published by the International Accounting Standards Board ("IASB") in November 2013. The amendments enable recognising the contributions paid by the employees as reduction of the cost of employment in the period in which work was performed by the employee, instead of allocating the contribution to the periods of work, if the amount of the employee's contribution is independent of the length of employment (seniority).

Annual Improvements to IFRSs 2010–2012 Cycle. In December 2013 the International Accounting Standards Board issued "Annual Improvements to IFRSs 2010–2012 Cycle", which amend 7 standards. The amendments comprise changes in presentation, recognition and valuation, as well as terminology and editing changes.

Amendments to IAS 16 and IAS 41 "Agriculture". The amendments require recognition of specific bearer plants, such as grape vines, rubber trees and oil palms (i.e. which bear produce for many years and are not intended for sale in the form of seedlings or as crop during harvest) in accordance with IAS 16 "Property, Plant and Equipment", as their operation is similar to that of manufacturing. As a result such plants are now subject to IAS 16 instead of IAS 41. The agricultural produce of these plants is still subject to IAS 41.

Amendment to IFRS 11 "Joint Arrangements". The amendments to IFRS 11 require an investor acquiring an interest in a joint operation, when the operation constitutes a business within the meaning of IFRS 3, to apply to the acquisition all of the principles on business combinations accounting specified in IFRS 3 and other IFRSs, unless those principles conflict with the guidance provided in IFRS 11.

Amendments to IAS 16 and IAS 38 "Intangible Assets". The amendments clarify that the depreciation method based on revenue is not appropriate because the revenue generated by an activity that includes the use of an asset reflects also patterns other than consumption of the economic benefits embodied in an asset.

Annual Improvements to IFRSs 2012–2014 Cycle. In September 2014 the International Accounting Standards Board issued "Annual Improvements to IFRSs 2012–2014 Cycle", which amend 4 standards: IFRS 5, IFRS 7, IAS 19 and IAS 34.

Amendments to IAS 1 "Presentation of Financial Statements". In December 2014 the International Accounting Standards Board published an amendment to IAS 1 within the works related to the initiative of disclosure. The purpose of the published amendment is to clarify the concept of relevance and ensuring that if an entity considers that some data is irrelevant, it should not disclose the same even if such disclosure is, as to the principle, required by other IFRSs. The amendment to IAS 1 clarifies that items to be presented in the statement of financial position and statement of profit or loss and other comprehensive income can be disaggregated or aggregated as relevant. Moreover, additional guidance regarding presentation of subtotals in these statements has been introduced.

Amendments to IAS 27 "Consolidated and Separate Financial Statements". The amendment to IAS 27 enables the use of the equity method of accounting in measuring investments in subsidiaries, joint ventures and associates in the separate financial statements of the investor as one of the optional methods.

Amendments to IFRS 10, IFRS 12 and IAS 28 regarding investment entities exemption from consolidation. The amendments to IFRS 10, IFRS 12 and IAS 28 issued under the name "Investment Entities: Applying the Consolidation Exception" specifies the requirements for investment entities and introduces some simplifications. The standard explains that parent entities should account for all their investment entity subsidiaries at fair value through profit or loss. Moreover, it has been made precise that the exemption from preparing consolidated financial statements applies if the intermediate parent prepares publicly disclosed financial statements, regardless of whether entities are consolidated or are accounted for at fair value through profit or loss in accordance with IFRS 10 in the statements of the parent or intermediate parent company.

STANDARDS AND INTERPRETATIONS ALREADY PUBLISHED AND APPROVED BY THE EU WHICH HAVE NOT YET COME INTO FORCE

IFRS 9 "Financial Instruments". IFRS 9 replaces IAS 39. The standard is binding for the annual periods beginning on or after 1 January 2018. The standard introduces one model providing for two categories of financial assets classification only: those measured at fair value or those measured at amortised cost. The classification is made at the moment of initial recognition and depends on the model of financial instruments management model assumed by the entity and the characteristics of the contractual cash flows for the instruments. IFRS 9 introduces a new model with regard to impairment providing for the expected credit losses. Most of IAS 39 requirements as regards classification and measurement of financial liabilities has been moved to IFRS 9 unchanged. A major change is the requirement imposed on entities to present in other comprehensive income the consequences of changes of their credit risk on financial liabilities intended for measurement at fair value through profit or loss. Amendments with regard to hedge accounting were supposed to better adjust hedge accounting to risk management.

IFRS 14 "Regulatory Deferral Accounts". The standard permits an entity which is a first-time adopter of International Financial Reporting Standards (on or after 1 January 2016) to continue to account for amounts resulting from the activities at regulated prices in accordance with the previously applied accounting principles. In accordance with IFRS 14, in order to improve comparability with entities which have already been applying IFRSs and have not reflected such amounts, the amounts resulting from activities at regulated prices should be presented separately in the statement of financial position and statement of profit or loss and other comprehensive income. Pursuant to a decision of the European Union IFRS 14 will not be approved.

IFRS 15 "Revenue from Contracts with Customers". The IFRS 15 "Revenue from Contracts with Customers" is binding for annual periods beginning on or after 1 January 2018. The principles of IFRS 15 will refer to all agreements resulting in revenue. The fundamental principle of the new standard is revenue recognition at the moment of goods or services transfer to the customers, at the value of the transaction price. All goods or services sold in combination which may be separated within the combination must be disclosed separately. Moreover, all discounts and rebates with regard to the transaction price must be, as to the principles, allocated to the particular elements of the combination. If the value of revenue varies, then in accordance with the new standard the variable amounts are allocated to revenues in case of high probability that a reversal of the entry will not be made in future as a result of the value overestimation. In accordance with IFRS 15, the costs incurred for acquisition and securing a contract with a customer must be capitalised and settled in time for the period of consuming the advantages of the contract.

Clarifications to IFRS 15 "Revenue from Contracts with Customers". The clarifications to IFRS 15 "Revenue from Contracts with Customers" were published on 12 April 2016 and apply to financial statements prepared post 1 January 2018. The clarifications provide additional information and address the main assumptions of IFRS 15, e.g. identification of distinct performance obligations, determination whether an entity acts as an agent or as the principal supplier of goods and services, and the method of recognition of licensing revenue. Apart from additional clarifications, also exemptions and simplifications were introduced for entities applying the new standard for the first time. The Company does not expect the new standard to significantly affect its financial statements. As at the date of preparing these financial statements, the clarifications to IFRS 15 have not yet been approved by the European Union.

Amendments to IFRS 10 and IAS 28 "Sales or Contributions of Assets Between an Investor and its Associate/Joint Venture". The amendments solve the problem of the current conflict between IFRS 10 and IAS 28. The accounting recognition depends on whether the non-monetary assets sold or contributed to a subsidiary or a joint venture constitute a "business" or not. If the assets constitute a business, the investor recognises the gain or loss on the transaction in full. If assets do not constitute a business, the investor recognises the gain or loss by excluding the part representing the shares of other investors. The amendments were published on 11 September 2014. The binding date of the amendment provisions has not yet been determined by the International Accounting Standards Board. The Company applies amendments from the dates they come into force, in accordance with the decisions of the IASB. As as the date of preparing these financial statements, the amendments approval has been deferred by the European Union.

IFRS 16 "Leases". The IFRS 16 "Leases" was issued by the International Accounting Standards Board on 13 January 2016 and shall be binding for the annual periods beginning on or after 1 January 2019. The new standard specifies the way of recognition, measurement, presentation and disclosure of leases. All lease transactions result in the lessee's obtaining the right to use an asset and acquiring a liability on account of the payment obligation. At the same time IFRS 16 eliminates the distinction between operating and finance leases introduced by IAS 17 and introduces one model of the lease recognition in the books by the lessee. The lessee will have to recognise: (a) assets and liabilities for all leases taken for a term longer than 12 months, except when the asset has a low value, and (b) depreciation of the leased asset separately from the interest on the lease liability in the statement of profit or loss. IFRS 16 repeats to a major extent the regulations of IAS 17 regarding the accounting recognition of lease by the lessor. In consequence, the lessor continues classification of operating and finance leases and adequate accounting

differentiation of these two types. As at the date of preparing these financial statements, the amendments have not yet been approved by the European Union.

Amendments to IAS 12 "Recognition of deferred tax assets for unrealised losses". The amendments to IAS 12 clarify the requirements for recognition of deferred tax assets for unrealised losses on debt instruments. An entity will be obliged to recognise deferred tax assets on unrealised losses, if they result from discounting cash flows related to a debt instrument applying market interest rate and if the entity plans to keep the debt instruments to their maturity and at the moment of receiving the nominal amount there will be no duty to pay taxes. The economic benefit reflected in deferred tax assets result from the possibility of gaining future profits by the holder of the instruments (reversal of the discounting effect) without the necessity of paying taxes. The amendment is binding for the annual periods beginning on or after 1 January 2017. As at the date of preparing these financial statements, the amendments have not yet been approved by the European Union.

Amendments to IAS 7 "Statement of Cash Flows" – "Disclosure Initiative". The amendments are binding for annual periods beginning on or after 1 January 2017. Entities shall provide disclosures of changes in liabilities arising from financing activities. As at the date of preparing these financial statements, the amendments have not yet been approved by the European Union.

Amendments to IFRS 2 "Share-based Payment" – "Classification and Measurement of Share-based Payment Transactions". The amendments to IFRS 2 are binding for annual periods beginning on or after 1 January 2018. Among other things, the amendments provide guidance for measurement at fair value of liabilities on account share-based transactions that are cash settled, change in classification of cash-settled share-based transactions into equity-settled share-based transaction because of modifications of the terms and conditions, as well as recognition of tax liability of an employee on account of share-based transactions. As at the date of preparing these financial statements, the amendments have not yet been approved by the European Union.

Amendments to IFRS 4 Applying IFRS 9 "Financial Instruments" with IFRS 4 "Insurance Contracts". The amendments to IFRS 4 "Insurance Contracts" address the issue of applying the new IFRS 9 "Financial Instruments". The published amendments to IFRS 4 supplement the options already existing in the standards and are to prevent temporary volatility of the results of insurance sector entities in relation to the implementation of IFRS 9. As at the date of preparing these financial statements, the amendments have not yet been approved by the European Union.

Annual Improvements to IFRSs 2014–2016 Cycle. In December 2016 the International Accounting Standards Board issued "Annual Improvements to IFRSs 2014–2016 Cycle", which amend 3 standards: IFRS 12 "Disclosure of Interest in Other Entities", IFRS 1 "First-time Adoption of International Financial Reporting Standards", and IAS 28 "Investments in Associates and Joint Ventures". The amendments include clarifications and changes regarding the scope of the standards, recognition and measurement, as well as terminology and editing changes. As at the date of preparing these financial statements, the amendments have not yet been approved by the European Union.

Amendments to IAS 40 "Investment Property". The amendments to IAS 40 precise the requirements for transfers to or from investment property (reclassification). The amendment is binding for the annual periods beginning on or after 1 January 2018. As at the date of preparing these financial statements, the amendments have not yet been approved by the European Union.

IFRIC 22 "Foreign Currency Transactions and Advance Consideration". IFRIC 22 clarifies the accounting for transactions that include receipt or payment of advance consideration in a foreign currency. The interpretation is binding for the annual periods beginning on or after 1 January 2018. As at the date of preparing these financial statements, the interpretation has not yet been approved by the European Union.

The Group has not decided to apply any standard, interpretation or amendment which have been published but are not yet binding.

The Group does not expect that introduction of any of the above standards, amendments to standards or interpretations could have a major impact on the accounting policy applied by the Group or on the Group's financial statements.

Basis for preparing the statements

Companies subject to consolidation

as at 31 December 2016	Stoczek Natura Sp. z o.o.	MP Trade Sp. z o.o.
Nature of relationship	direct subsidiary	direct subsidiary
Consolidation method	full	full
Control assumption date	1 June 2007	28 September 2015
% of share capital held	100%	100%

Going concern

The financial statements of the Makarony Polskie Group were 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 discontinued in 2016.

The Group of Makarony Polskie SA concentrates its activities on:

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 innovating manufacturing technologies of new low-processed and health-promoting products that are easy to prepare;
- in Q.2, 2016, the production plant in Częstochowa was awarded a certificate of ecological products processing for durum flour 2-egg pasta and in December 2016 the production plants in Rzeszów and Częstochowa extended their processing certificate for regular wheat flour pasta;
- in Q.2, 2016 extension of the production plant in Rzeszów has started, comprising a production and warehouse building, with the planned completion date in the first half of 2017;
- in 2016 the production plant in Częstochowa commenced the performance of an investment project of an automated flour and bulk ingredients dosing system, which will enable extension of the production capacity and make the production process more flexible, with the planned completion date in the first half of 2017;

- at Stoczek Natura Sp. z o.o. research has been carried out in order to adjust the plant to the global trends in food production: convenience products, health-promoting products, and products packed in modified atmosphere;
- at the end of 2016 and beginning of 2017 Stoczek Natura Sp. z o.o. was carrying out the purchase of a modern line to pack fillings and stuffing, which will enable offering of products with longer shelf life compared to those offered now, as well as improvement of production security.

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

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

  The gross value of the project is PLN 12.3 million, the co-financing value is PLN 5.5 million. Within the project a modern production line will be purchased in order to implement the results of the research and development works in the form of new pasta types. Signing the co-financing agreement has been planned for Q.1, 2017, whereas the planned date of the project completion falls to June 2018.
- In February 2017 the Company was informed about the publication by Bank Gospodarstwa Krajowego of a list of projects selected for co-financing within Sub-Measure 3.2.2 – Loan on Engineering Innovation, under the Smart Growth Operational Programme 2014–2020, in which the Company project entitled "Increase of Makarony Polskie SA Competitiveness Level by Implementation of the Results of R&D Works in the Form of Process Innovation" was included. The main objective of the project is Makarony Polskie SA expansion on the market of functional food by implementation of innovative pasta manufacturing technology. Within the project the Company plans to purchase fixed assets.

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

- Within the 2014–2020 perspective the Group companies apply for EU funds in order to accelerate investments and extend the scope of investments in modernisation of the currently used production machines and to develop new areas of operation, e.g. fillings and stuffing production, initiation of presence in the HoReCa segment, with the aim to maintain the market position and cope with the growing demand for new, innovative products and packaging. Among other things, in Q.1, 2017 design audits shall commence so as to develop a design strategy for the companies.

Development of private label segment activities:

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

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

- development of pasta categories, as well as meat/vegetable products and fruit products tailored to the expectations of the channel customers;
- establishing cooperation with other pasta and ready-cooked meals manufacturers, as well as complementary products manufacturers in order to supplement the offer for the final recipient;
- products assortment individualisation and, thus, competitiveness improvement;
- use of the production potential of Stoczek Natura Sp. z o.o. as regards products packing as a subcontractor;
- further development of semi-products manufacturing based on the production capacity of the plant in Stoczek Łukowski, which includes sweet fillings and salty stuffing;
- strengthening of the B2B and HoReCa channels at the Makarony Polskie Group by employing professional sales representatives dedicated to these channels.

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

- improvement of the position of brand products through the strategy of concentration on 5 brands, and particularly on the key brands of Makarony Polskie and Męska Rzecz, as well as continuous portfolio optimisation (both as regards elimination of items which are dying out on the market, and introduction of new products expected by the market);
- development and implementation of the mechanisms of cooperation with wholesale customers, local retail networks and shop chains, particularly as regards convenience and international medium and small scale chains – as a strategy of selective distribution in consideration of the specifics of categories within the Group area of operation;
- focusing on fast and effective development of brand products availability in the modern channel and implementation of effective distribution policy in the traditional channel, including cooperation with specialised external companies as regards sales forces outsourcing (External Sales Forces) and implementation of new sales strategy by MP Trade Sp. z o.o. consisting in cooperation with external Trade Agencies;
- extension of the Group portfolio by inclusion of third-party products in the sales offer, including niche, high-margin 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;
- performance of an annual promotional and information campaign within the "Jakość Natury [Quality of Nature] Promotional and Information Campaign on the Polish Market" project, promoting the products of the consortium participants (Makarony Polskie SA, Stoczek Natura Sp. z o.o. and Dary Natury) awarded with the "Jakość Tradycja" [Quality and Tradition] certificate.

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

- introduction of Novelle – a universal exports brand under which both current and new products will be offered, like stuffed pasta, BIO pasta, premium products, etc.;
- growth in the number of customers on foreign markets – attracting 10 new recipients is planned;
- intensified communication with the current and potential recipients by virtue of participation in sector fairs and organisation of B2B meetings on the target markets, for example;
- continued cooperation with Raya Distribution – deliveries and distribution on the Egyptian market of the manufacturer's own brands;

- attracting and performing projects focused on supply of products identified with the recipient's own brand, mainly to the African market;
- product assortment extension by offering functional products on foreign markets, e.g. wholemeal pastas with high fibre content, spelt and buckwheat flour pastas, BIO products as well as new product categories (products attracted by MP Trade Sp. z o.o. from outside of the Group).

In the opinion of the Management Board of Makarony Polskie SA, the current financial standing of the Group allows for the implementation of the above presented development directions.

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, within 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 allowances on account of the Abak and Tenczynek brands value. Applicable tests compliant with the binding policies were performed as for the balance as at the end of 31 December 2016.

Assumptions regarding the future and the assumed estimations are cohesive with the assumptions and estimations assumed by the Group in the financial statements for 2015.

Selected financial data – Makarony Polskie Group

Selected financial data	31 December 2016	31 December 2015	31 December 2016 (EUR '000)	31 December 2015 (EUR '000)
Net sales of products, services, merchandise and materials	124,181	132,776	28,428	31,728
Profit (loss) on continued operations	7,603	7,761	1,741	1,855
Gross profit (loss)	6,567	6,552	1,503	1,566
Net profit (loss) on continued operations	5,092	4,914	1,166	1,174
EBIT	7,603	7,761	1,741	1,855
EBITDA (EBIT + depreciation)	12,157	12,095	2,783	2,890
Net cash flows on operating activities	13,480	7,219	3,086	1,725
Net cash flows on investing activities	-6,562	-907	-1,502	-217
Net cash flows on financing activities	-7,000	-6,845	-1,602	-1,636
Total net cash flows	-82	-533	-19	-127
Total assets	128,386	127,000	29,020	29,802
Liabilities and provisions for liabilities	55,570	56,104	12,561	13,165
Long-term liabilities	23,129	25,501	5,228	5,984
Short-term liabilities	32,441	30,603	7,333	7,181
Equity	72,816	70,896	16,459	16,636
Share capital	27,750	27,750	6,273	6,512
Number of shares	9,250,071	9,250,071	9,250,071	9,250,071
Weighted average number of shares in the respective reporting year	9,250,071	9,250,071	9,250,071	9,250,071
Profit/loss per one ordinary share (PLN/EUR) *	0.55	0.53	0.13	0.13
Book value per one share (PLN/EUR) **	7.87	7.66	1.78	1.80

* 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

Selected financial data – Makarony Polskie Group

Selected financial data in EUR presented in compliance with § 91.2 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 at the balance-sheet date (EUR 1 = PLN 4.4240 as at 31 December 2016; EUR 1 = PLN 4.2615 as at 31 December 2015);
- 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 2016 (i.e. EUR 1 = PLN 4.3682) and as at the end of each month of 2015 (i.e. EUR 1 = PLN 4.1848).

The financial statements were prepared based on the International Financial Reporting Standards (IFRS) in the form approved by the EU, as well as in accordance with the requirements set out in the Regulation of the Minister of Finance of 19 February 2009 on current and periodical information to be disclosed by the securities issuers (Journal of Laws of 2009 No. 33, item 259).

Consolidated statement of comprehensive income

Consolidated statement of comprehensive income

FOR THE PERIOD	Note	01.01.2016–31.12.2016	01.01.2015–31.12.2015
Net sales	**1, 2, 3**	**124,181**	**132,776**
Net sales of products and services		118,281	125,024
Net sales of merchandise and materials		5,900	7,752
Prime cost	**2, 4**	**95,272**	**104,936**
Cost of manufacturing of products and services sold		89,541	97,414
Value of merchandise and materials sold		5,731	7,522
Gross profit (loss) on sales		**28,909**	**27,840**
Cost of sales	5	16,726	16,523
General management costs	6	4,760	4,666
Other revenues	7	870	1,608
Other costs	8	690	498
Profit (loss) on continued operations		**7,603**	**7,761**
Financial revenues	9	201	391
Financial costs	10	1,237	1,600
Gross profit		**6,567**	**6,552**
Income tax – current part	11	937	0
Income tax – deferred part	12	538	1,638
Net profit (loss) on continued operations		**5,092**	**4,914**
Including net profit (loss) assigned to:		5,092	4,914
Shareholders of the Parent Company		5,092	4,914
Non-controlling interest		0	0
Basic net earnings per share in PLN	13	0.55	0.53
Diluted net earnings per share in PLN		0.55	0.53
Other comprehensive income/loss, net		0	0
Total net comprehensive income		5,092	4,914
Net comprehensive income assigned to:		5,092	4,914
Shareholders of the Parent Company		5,092	4,914
Non-controlling interest		0	0

Consolidated statement of comprehensive income

Consolidated statement of other comprehensive income, net – hedge accounting

FOR THE PERIOD	01.01.2016–31.12.2016	01.01.2015–31.12.2015
Net comprehensive income	**5,092**	**4,914**
Profit/loss on account of hedge accounting application	66	95
Total net comprehensive income	5,158	5,009

Consolidated statement of financial position

ASSETS	Note	01.01.2016–31.12.2016	01.01.2015–31.12.2015
FIXED ASSETS		**90,606**	**87,307**
Tangible fixed assets	14	73,520	70,100
Investment properties	15	1,235	1,227
Goodwill	16	5,949	5,949
Other intangible fixed assets	17	9,559	9,820
Long-term financial assets	18	0	0
Deferred income tax assets		17	134
Other long-term assets	24	326	77
CURRENT ASSETS		**37,780**	**39,693**
Inventories	19	13,015	11,990
Short-term receivables	20	23,477	26,479
Loans granted	22	0	0
Cash and cash equivalents	23	920	1,002
Other short-term assets	24	368	222
FIXED ASSETS HELD FOR SALE		0	0
TOTAL ASSETS		**128,386**	**127,000**

Consolidated statement of financial position

EQUITY/LIABILITIES	Note	01.01.2016–31.12.2016	01.01.2015–31.12.2015
EQUITY CAPITAL		**72,816**	**70,896**
Share capital	**25**	27,750	27,750
Other reserve capital	26	39,505	37,665
Retained profit/loss (profit/loss from previous years)	27	469	567
Net profit/loss		5,092	4,914
LONG-TERM LIABILITIES		**23,129**	**25,501**
Deferred income tax provision		3,387	2,967
Long-term bank credits and loans	28	11,117	13,494
Provision for retirement benefits and equivalent (long-term)	30	143	144
Deferred income (long-term)	33	7,053	7,531
Long-term financial liabilities	31	1,429	1,365
SHORT-TERM LIABILITIES		**32,441**	**30,603**
Short-term bank credits and loans	28	8,455	8,256
Short-term financial liabilities	31	709	559
Other short-term liabilities	32	22,658	21,130
Deferred income (short-term)	33	548	568
Provision for retirement benefits and equivalent (short-term)	30	71	90
Other short-term provisions	30	0	0
TOTAL LIABILITIES		**55,570**	**56,104**
TOTAL EQUITY/LIABILITIES		**128,386**	**127,000**

Consolidated statement of cash flows – indirect method

FOR THE PERIOD	01.01.2016–31.12.2016	01.01.2015–31.12.2015
Net cash flows on operating activities		
Profit before tax	**6,567**	**6,552**
Adjustments for items:	**6,913**	**667**
Depreciation	4,554	4,334
Foreign exchange gains/losses	0	-1
Interest cost and income	943	1,236
Dividend income	0	0
Profit/loss on investing operations	-245	-653
Change in the balance of provisions	-21	-81
Change in the balance of inventories	-1,025	-420
Change in the balance of receivables	3,002	-1,521
Change in the balance of liabilities and accruals	634	-2,245
Corporate income tax paid/reimbursed	-937	0
Other adjustments	8	18
Net cash flows on operating activities	**13,480**	**7,219**
Cash flows on investing activities	0	0
Revenues from sale of tangible and intangible fixed assets	1,946	1,196
Revenue from sale of financial assets	0	0
Expenses on purchase of tangible and intangible fixed assets	-8,508	-2,101
Expenses on acquisition of subsidiaries and associated companies	0	-2
Interest revenues	0	0
Revenues on loans granted	0	0
Loans granted	0	0
Other	0	0

Consolidated statement of cash flows – indirect method

Net cash flows on investing activities	**-6,562**	**-907**
Cash flows on financing activities		
Revenues from credits and loans	2,503	4,000
Repayment of credits and loans	-4,681	-7,478
Payment of liabilities under financial lease agreements	-641	-558
Interest paid	-943	-1,236
Dividend paid out to shareholders	-3,238	-1,573
Expenses on purchase of financial assets	0	0
Other financial revenues	0	0
Net cash flows on financing activities	**-7,000**	**-6,845**
Increase/decrease in the balance of cash and cash equivalents	**-82**	**-533**
Cash, cash equivalents and credit in the current account at the beginning of the period	1,002	1,534
Foreign exchange gains/losses on valuation of cash, cash equivalents and credit in the current account	0	1
Cash, cash equivalents and credit in the current account at the end of the period	**920**	**1,002**

Statement of changes in consolidated equity

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

For the period from 1 January 2015 to 31 December 2015

	Share capital	Other reserve capital	Result for the current year	Profit/loss from previous years	Total
As at 1 January 2015	27,750	35,034	0	4,676	67,460
Profit distribution/loss coverage	0	2,536	0	-2,536	0
Profit/loss on account of hedge accounting application	0	95	0	0	95
Dividend payout	0	0	0	-1,573	-1,573
Net result for 2015	0	0	4,914	0	4,914
As at 31 December 2015	27,750	37,665	4,914	567	70,896

Additional explanatory notes

Notes to statement of comprehensive income

Note 1
Sales revenues

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

	01.01.2016–31.12.2016	01.01.2015–31.12.2015
Sales of products	114,163	122,016
Sales of services, including:	4,118	3,008
– on account of lease and storage	2,547	2,258
– distribution services	310	0
– marketing services, market research	300	0
– service production	956	738
– other services	5	12
Sales of materials	3,054	2,992
Sales of merchandise	2,846	4,760
Total	**124,181**	**132,776**

The Makarony Polskie Group distinguishes the product groups identified in the table below.

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

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

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

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

In 2016 the Group recorded a drop in the sales:

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

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

Note 2

Basic information regarding operating segments

For the period 01.01.2016–31.12.2016	Pasta	Meat and vegetable products	Vegetable products	Fruit products	Other	Total segments
Total revenues of the segments	**95,166**	**15,617**	**2,069**	**4,153**	**7,176**	**124,181**
Sales to third party customers	95,166	15,617	2,069	4,153	7,176	124,181
Sales between the segments	0	0	0	0	0	0
Costs of the segments	**72,226**	**13,600**	**1,875**	**3,857**	**3,714**	**95,272**
Profits/losses of the segments	22,940	2,017	194	296	3,462	28,909
Cost of sales	0	0	0	0	0	-16,726
General management costs	0	0	0	0	0	-4,760
Other revenues	0	0	0	0	0	870
Other costs	0	0	0	0	0	690
Financial revenues	0	0	0	0	0	201
Financial costs	0	0	0	0	0	-1,237
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	0	0	0	0	0	6,567

For the period 01.01.2015–31.12.2015	Pasta	Meat and vegetable products	Vegetable products	Fruit products	Other	Total segments
Total revenues of the segments	**103,608**	**12,432**	**3,061**	**5,904**	**7,771**	**132,776**
Sales to third party customers	103,608	12,432	3,061	5,904	7,771	132,776
Sales between the segments	0	0	0	0	0	0
Costs of the segments	**79,882**	**11,431**	**2,879**	**5,583**	**5,161**	**104,936**
Profits/losses of the segments	23,726	1,001	182	321	2,610	27,840
Cost of sales	0	0	0	0	0	-16,523
General management	0	0	0	0	0	-4,666

costs						
Other revenues	0	0	0	0	0	1,608
Other costs	0	0	0	0	0	-498
Financial revenues	0	0	0	0	0	391
Financial costs	0	0	0	0	0	-1,600
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	0	0	0	0	0	6,552

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 uniform area due to the closeness of location, similar economic conditions and general risk.

Note 3

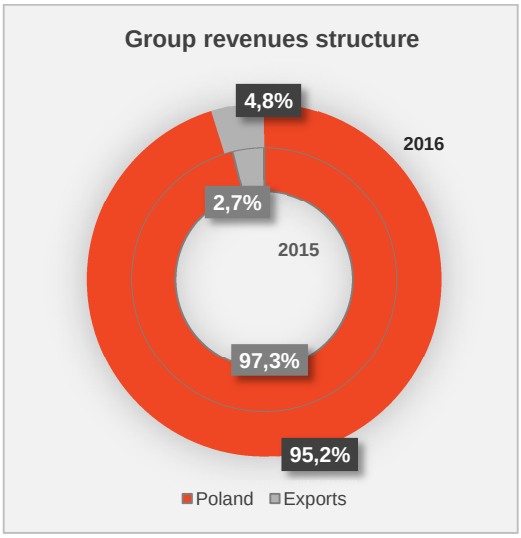
Sales of products, services, merchandise and materials – geographic structure

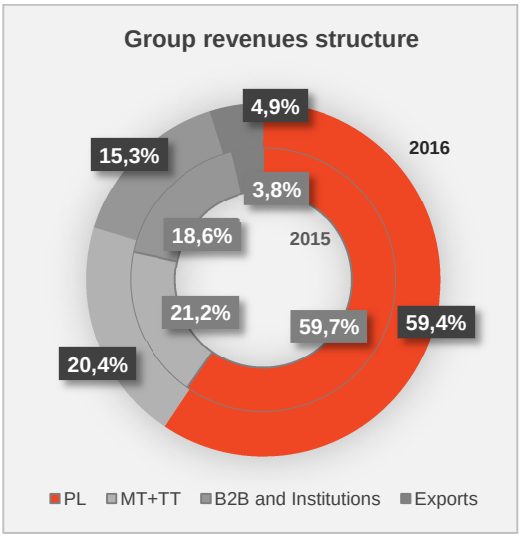
	01.01.2016–31.12.2016	01.01.2015–31.12.2015
Poland	118,853	128,378
Exports, including	5,328	4,398
– EU member states	2,720	2,886
– other countries	2,608	1,512
Total	**124,181**	**132,776**

SALES REVENUES BY SALES MARKETS

The sales markets of the Makarony Polskie Group may be divided into domestic market (including private label, traditional trade, modern trade, and B2B and institutions) and exports market (including sales to domestic intermediaries). As regards Like-for-Like (LFL) measure, the Group generated the following sales revenues in 2016:

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





Private label

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

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

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

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

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

The main recipients in that channel are such shop networks as: Jeronimo Dystrybucja Polska, LIDL, Auchan, Żabka, Intermarche, Stokrotka, GK Specjał, Lewiatan. Only one

customer exceeded the threshold of 10% share in the consolidated sales revenues (total for brand and private label products). The Group companies are in no way related to the operator of that shop chain, whereas cooperation is carried out on partner basis and is favourable to the Makarony Polskie Group.

Modern trade and traditional trade

Another significant revenue source for the Group equivalent to 20.4% sales on the domestic market is the sales of the Group brands (Makarony Polskie, Sorenti, Stoczek, Tenczynek and Męska Rzecz) in the modern trade (MT) and traditional trade (TT) channels:

MT and TT (PLN '000)	2016	2015	YoY
Sales revenues	25,230	24,713	+2.1%

Higher sales resulted mainly from:

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

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

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

[Quality and Tradition] certificate. The total cost of the project is PLN 2.2 million net. The value of co-financing is PLN 1.6 million, which represents 70% of eligible costs. The project has been planned to be completed in the second quarter of 2018.

B2B and institutions

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

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

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

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

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

A relatively new form of the Group activities – manufacturing of sweet fillings and salty stuffing – has been positively received by the market from the very beginning. The Group has been striving for attracting new promising recipients. Additionally, at the Stoczek production plant, the Group has developed a new form of service, consisting in jars and cans filling for customers as a subcontractor. In that part of activities the Group has recorded growing sales.

Exports

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

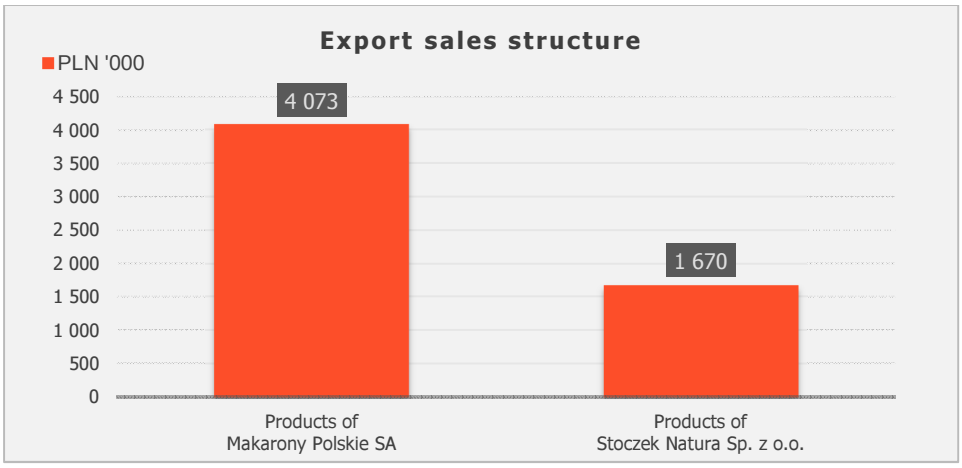
Exports (PLN '000)	2016	2015	YoY
Sales revenues	6,081	5,046	+20.5%

Export sales of the Group brought over PLN 6.0 million in 2016 (through own trading team and through intermediaries). The result was higher by 20.5% than in 2015. The Group has been introducing a long-term strategy of attracting new sales markets. Direct relations

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

established with the final recipients have positively translated to the level of margin generated.

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



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

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



In the years 2017–2018 the Group plans to focus its activities on the markets of Northern Africa and Ukraine. For the performance of the objectives the

Group has attracted partners on the local market and plans to double the current sales on those markets in the perspective of 2017–2018.

MAJOR RECIPIENT:

In 2016 only one customer exceeded the threshold of 10% share in the consolidated sales revenues (total for brand and private label products). This is the Biedronka chain with the share of approx. 30.4%. The Group companies are not formally related to the operator of that shop chain. Cooperation with the Biedronka chain is carried out on partner basis and is advantageous for the Makarony Polskie Group.

Note 4
Costs of employee benefits and costs of depreciation

Costs of employee benefits	01.01.2016–31.12.2016	01.01.2015–31.12.2015
Payroll cost	8,860	8,728
Social insurance cost	1,587	1,501
Cost of other employee benefits, including:	466	427
– cost of benefits on account of employment relationship termination	80	39
– cost of retirement and disability benefits	67	15
– cost of equivalents for unused holiday leaves	68	154
– other benefits	251	219
Total	**10,913**	**10,656**

Employee benefits are divided into the following categories:

– short-term benefits comprising payroll, social insurance contributions, paid absences and in-kind benefits. The costs of short-term benefits are reflected in the statement of comprehensive income on a current basis, in the period to which they refer. At the end of the reporting period, the non-discounted value of short-term benefits for the respective reporting year which still needs to be paid is recognised by the Group as an element of accrued expenses;

– benefits after the end of employment relations – within such benefits the Group pays out gratuity to the employees.

A provision is established for the future payout of retirement gratuity. The provision is periodically reviewed by an independent actuary in accordance with the IFRS regulations.

Costs of depreciation	01.01.2016–31.12.2016	01.01.2015–31.12.2015
Depreciation	4,554	4,334

Note 5

Costs of sales

	01.01.2016–31.12.2016	01.01.2015–31.12.2015
Depreciation	519	555
Consumption of materials and energy	465	496
Cost of third party services	10,390	9,859
Taxes and fees	341	267
Payroll	2,769	2,914
Employee benefits	575	577
Other costs	1,667	1,855
Total	**16,726**	**16,523**

Note 6

General management costs

	01.01.2016–31.12.2016	01.01.2015–31.12.2015
Depreciation	397	426
Consumption of materials and energy	100	103
Cost of third party services	1160	1,046
Taxes and fees	216	278
Payroll	2,141	2,107
Employee benefits	337	351
Other costs	409	355
Total	**4,760**	**4,666**

Note 7

Other revenues

	01.01.2016–31.12.2016	01.01.2015–31.12.2015
State subsidies	497	939
Profit on sale of tangible fixed assets	245	532
Release of other provisions and reversal of impairment allowances	0	0

Indemnity and complaints	26	53
Sale of scrap and waste	15	16
Reimbursement of court and enforcement fees	7	2
Inventory-taking surpluses	8	27
Reimbursement of overpaid social insurance contributions	34	5
Booked revenues on account of reimbursement of eligible costs – exports subsidy	0	-134
Liabilities written-off	0	43
Reversal of impairment allowances for inventories	2	2
Reversal of impairment allowances for tangible fixed assets	0	121
Lease liabilities	13	0
Turnover rebates	19	0
Other	4	2
Total	**870**	**1,608**

The other operating revenues comprise revenue and profit which are not directly related to the operating activities of the Group. This category includes subsidies, profit on sale of tangible fixed assets, indemnity received in relation to reimbursement of litigation costs, overpaid tax liabilities, except for corporate income tax, and indemnities received on account of loss in property which has been insured.

Moreover, the item comprises reversed impairment allowances for liabilities and inventories, impairment of tangible fixed assets, and inventory-taking surpluses in working assets.

Note 8
Other costs

	01.01.2016–31.12.2016	01.01.2015–31.12.2015
Donations	3	9
Penalties and fines	59	59
Shortages in working assets	13	5
Impairment allowances for inventories	21	0
Cost of court and enforcement proceedings	213	13
Liquidation of damaged and obsolete inventories	203	238
Sponsoring for marketing purposes	37	0
Revaluation of receivables, other allowances and provisions	76	7
Indemnities paid	0	54
Written-off receivables (cancelled as non-collectible)	45	101
Written-off investment expenditures	16	

Other	4	12
Total	**690**	**498**

The other operating costs comprise costs and losses which are not directly related to the operating activities of the Group. The category comprises losses on the sale of tangible fixed assets, donations given to other entities both in kind and in cash, which refers also to public benefit institutions, and the consequences of guarantees and security bonds granted to other entities.

Moreover, the item comprises the costs of impairment allowances for receivables and inventories, impairment of tangible fixed assets and indeliberate shortages in working assets.

Note 9
Financial revenues

	01.01.2016–31.12.2016	01.01.2015–31.12.2015
Interest income, including:	176	391
– interest on bank deposits	0	0
– interest on loans	0	0
– interest on receivables	176	391
Foreign exchange gains	0	0
Revaluation of short-term investments	8	0
Other financial revenues	17	0
Profit on sale of financial assets	0	0
Total	**201**	**391**

Financial revenues comprise revenue on dividends received, interest on deposits and on investments in various forms of financial instruments. Moreover, the item includes foreign exchange gains.

Note 10
Financial costs

	01.01.2016–31.12.2016	01.01.2015–31.12.2015
Cost of interest applicable to	943	1,239
– bank credits	670	890
– cost of factoring and lease	273	347
– interest on liabilities	0	2
– state budget interest	0	0
Other financial costs, including	294	361
– foreign exchange losses	142	64
– guarantees	24	23
– bank and factoring fees and commissions	128	256
– impairment allowance for investment properties	0	18
Total	**1,237**	**1,600**

Financial costs include the cost of using external sources of finance, interest payable on financial lease agreements to which the Group is a party, and other financial costs. Financing activities comprise also foreign exchange losses and impairment allowances for investment properties.

Note 11
Income tax

	01.01.2016–31.12.2016	01.01.2015–31.12.2015
Current income tax	937	0
Deferred income tax	538	1,638
Tax charge/credit reflected in the statement of comprehensive income, including	1,475	1,638
– assigned to continued activities	1,475	1,638

Reconciliation of income tax on gross financial result before income tax reflected in the statement of comprehensive income:

	01.01.2016–31.12.2016	01.01.2015–31.12.2015
Gross financial result before tax on continued activities	6,567	6,552
Profit/loss before tax on discontinued activities	0	0
Gross financial result before tax	6,567	6,552
Tax rate (%)	19	19
– tax-deductible costs which are not balance-sheet costs (–)	-1,998	-1,879
– balance-sheet costs which are not tax-deductible costs (+)	1,183	764
– non-taxable revenues (–)	-522	-685
– taxable revenues which are not balance-sheet revenues (+)	120	328
– subsidies received	0	-392
Tax basis/tax loss of the Group	5,350	4,688
Tax deductible costs:	0	0
– tax shield 2010	0	206
– tax shield 2011	0	4,236
– tax shield 2012	1,228	1,047
– tax shield 2015 (MP Trade)	77	0
Taxable income of the Group	4,045	-801
Tax base	4,930	0
Income tax reflected in the statement of comprehensive income – current part	937	0

The Group is not a capital group for tax purposes, therefore, taxable income is reduced for the tax shields of the parent company and MP Trade Sp. z o.o. subsidiary for which the tax year has been extended. For the periods comparability purposes 2015 income had not been settled was presented as tax loss in 2016.

Note 12
Deferred income tax

	Statement of financial position as at 31.12.2016	Statement of financial position as at 31.12.2015	Statement of comprehensive income for 01.03.2016–31.122016	Statement of comprehensive income for 01.03.2015–31.122015
Deferred income tax provision				
– difference between the carrying amount and tax net value of fixed assets	3,635	3,349	286	600

– foreign exchange gains/losses	3	6	-3	4
– difference between lease liabilities and net value of fixed assets	110	57	53	23
– interest accrued	7	24	-17	-12
Gross deferred income tax provision	3,755	3,436	319	615
Deferred income tax assets				
– payroll paid out post balance-sheet date	12	8	4	6
– social insurance (ZUS) contributions	47	45	2	1
– retirement and disability befits and equivalent	41	45	-4	-15
– cost of third party services	0	0	0	0
– foreign exchange gains/losses	6	2	4	-5
– deductible tax loss	275	431	-156	-1,055
– overdue liabilities as at the balance-sheet date	0	72	-72	45
– revaluation of inventories	4	0	4	0
– charge to the Company Employee-benefits Fund (ZFŚS) accrued	0	0	0	0
– revaluation of receivables	0	0	0	0
Deferred tax assets reflected in the statement of financial position	385	603	-218	-1,023
Reversal of deferred tax allowance	0	0	0	0
Deferred income tax charge/credit	-3,370	-2,833	538	1,638

DEFERRED INCOME TAX ASSETS WHICH HAVE NOT BEEN INCLUDED IN THE BALANCE SHEET

	As at 31.12.2016	As at 31.12.2015
– assets – deductible tax loss	275	431
Deferred income tax assets which have not been included in the balance sheet	168	138

Current tax charge is calculated based on the binding tax regulations. The application of these regulations imposes a difference between taxable profit (tax loss) and net book profit (loss) owing to exclusion of non-taxable revenues and non-tax-deductible costs, or costs and revenues items which will never be subject to tax. Tax charge is calculated based on the tax rates binding in the given reporting year (now 19%). The legal provisions which assume different tax rates for future periods do not apply to the Group companies.

As regards income tax, the Group is subject to generally binding regulations in that scope. The group is not a tax Group, nor carries out any activities in a special economic zone, which would require a differentiation in the principles of determining tax charges in reference to the generally binding regulations in that scope. The tax years and the accounting years of the Group companies are equivalent to calendar years, 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.

Note 13

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

	01.01.2016–31.12.2016	01.01.2015–31.12.2015
Net profit/loss per share	0.55	0.53
Book value per share in PLN	7.87	7.66

	01.01.2016–31.12.2016	01.01.2015–31.12.2015
Net profit/loss on continued activities assigned to the Parent Company shareholders	5,092	4,914
Profit/loss on discontinued activities assigned to the Parent Company shareholders	0	0
Net profit/loss assigned to the Parent Company shareholders	5,092	4,914
Net profit/loss assigned to regular shareholders, applied in calculation of diluted profit/loss per share	N/A	N/A

	01.01.2016–31.12.2016	01.01.2015–31.12.2015
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 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 number of ordinary shares issued outstanding during the period (adjusted for the impact of diluting options and diluting redeemable shares convertible to ordinary shares). In 2016, 2015 and by the date of preparing these financial statements there were no factors diluting the share capital of the Parent Company.

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

Explanatory notes to the statement of financial position

Note 14
Tangible fixed assets

Tangible fixed assets, gross	31.12.2016	31.12.2015
Land, buildings and civil engineering structures	46,365	45,676
Plant and equipment	67,856	65,025
Vehicles	3,696	3,545
Fixed assets under construction	5,232	2,210
Other	2,389	2,368
Gross value at the end of the period	**125,538**	**118,824**

Amortisation and impairment allowances	31.12.2016	31.12.2015
Land, buildings and civil engineering structures	16,150	15,213
Plant and equipment	31,741	28,986
Vehicles	2,223	2,553
Fixed assets under construction	0	124
Other	1,904	1,848
Value of amortisation and impairment allowances	**52,018**	**48,724**

Tangible fixed assets, net	31.12.2016	31.12.2015
Land, buildings and civil engineering structures	30,215	30,463
Plant and equipment	36,115	36,039
Vehicles	1,473	992
Fixed assets under construction	5,232	2086
Other	485	520
Net value at the end of the period	**73,520**	**70,100**

CHANGES IN FIXED ASSETS

For the period from 1 January 2016 to 31 December 2016

	Land and buildings	Plant and equipment	Vehicles	Fixed assets under construction	Other	Total
Gross value at the beginning of the period	45,676	65,025	3,545	2,210	2,368	118,824
Additions	820	2,938	810	8,467	30	13,065
– acquisition	820	2,737	64	8,467	30	12,118
– other	0	201	746	0	0	947
Disposals	131	107	659	5,445	9	6,351
– sale	131	0	601	1,696	9	2,437
– other	0	107	58	3,749	0	3,914
Gross value at the end of the period	46,365	67,856	3,696	5,232	2,389	125,538
Amortisation value at the beginning of the period	13,550	28,785	2,553	0	1,848	46,736
Additions	1,133	2,892	299	0	65	4,389
Disposals	131	107	629	0	9	876
Amortisation value at the end of the period	14,552	31,570	2,223	0	1,904	50,249
Revaluation at the beginning of the period	1,664	202	0	124	0	1,990
Revaluation at the end of the period	1,598	171	0	0	0	1,769
Value upon amortisation and impairment allowance at the end of the period	16,150	31,741	2,223	0	1,904	52,018
Net value at the end of the period	30,215	36,115	1,473	5,232	485	73,520

For the period from 1 January 2015 to 31 December 2015

	Land and buildings	Plant and equipment	Vehicles	Fixed assets under construction	Other	Total
Gross value at the beginning of the period	44,638	62,602	3,459	3,872	2,295	116,866
Additions	1,038	4,106	604	2,244	78	8,071
– acquisition	1,038	2,739	0	2,244	78	6,099
– other	0	1,367	604	0	0	1,972
Disposals	0	1,684	518	3,906	5	6,113
– sale	0	1,399	518	51	5	1,973
– other	0	285	0	3,855	0	4,140
Gross value at the end of the period	45,676	65,025	3,545	2,210	2,368	118,824
Amortisation value at the beginning of the period	12,429	27,202	2,727	0	1,766	44,123
Additions	1,121	2,524	333	0	85	4,063
Disposals	0	941	506	0	3	1,450
Amortisation value at the end of the period	13,550	28,785	2,553	0	1,848	46,736
Revaluation at the beginning of the period	1,727	258	0	124	0	2,110
Revaluation at the end of the period	1,664	202	0	124	0	1,990
Value upon amortisation and impairment allowance at the end of the period	15,213	28,986	2,553	124	1,848	48,724
Net value at the end of the period	30,462	36,039	992	2,086	521	70,100

Impairment allowances are recognised as other costs in the statement of comprehensive income. In 2016 the Group did not make any revaluations of tangible fixed assets. Pro rata to the period of use, the Group reverses impairment allowances made as at the moment of acquisition of the shares of Stoczek (in 2007)

At the same time the companies of the Group verified the period of use of fixed assets as at 31 December 2016.

The Group possesses plant, equipment and vehicles used based on lease agreements. The carrying amount of the fixed assets used based on financial lease agreements as at 31 December 2016 amounted to PLN 2,724,000 as at 31 December 2015, and PLN 2,159,000 as at 31 December 2015.

The registered pledges imposed on fixed assets result from the terms and conditions of the credit agreements described in Note 28.

MORTGAGES ENCUMBERING THE PROPERTIES OF THE GROUP COMPANIES

Property	Balance as at 31.12.2016	Name of creditor	Title of liability	Company liability
Properties in Rzeszów (land and mortgage register No. KW RZ1Z/00076860/5)	PLN 33,000,000	BZ WBK SA	Joint contractual mortgage	Agreement on credit in the current account amounting to PLN 5,000,000 concluded by Makarony Polskie SA
				Agreement on investment credit amounting to PLN 13,894,000 concluded by Makarony Polskie SA
Properties in Płock (land and mortgage register No. KW PL1P/00094893/6)				Agreement on working-capital credit amounting to PLN 3,000,000 concluded by Makarony Polskie SA
				Framework agreement regarding the method of concluding and settling transactions
Property in Częstochowa (land and mortgage register No. KW CZ1C/00111425/8)	PLN 16,500,000	Bank Gospodarstwa Krajowego	Joint contractual mortgage	Agreement on credit in the current account amounting to PLN 6,000,000 concluded by Makarony Polskie SA
Properties in Stoczek Łukowski (land and mortgage register No. KW LU1U/00022979/2)				Agreement on non-revolving working capital credit in the credit account amounting to PLN 5,000,000 concluded by Makarony Polskie SA

Note 15
Investment properties

	31.12.2016	31.12.2015
Investment properties in Rzeszów and Stoczek Łukowski	1,235	1,227

The value of investment properties at the Makarony Polskie Group is measured and recognised at fair value in accordance with IAS 40, based on the appraisals made by real estate appraisers.

In 2016 the Group made a revaluation of the investment property in Stoczek, based on a real estate appraisal report.

The differences in the fair value of the property were recognised by the Group in the profit and loss account.

Note 16
Goodwill

01.01.2016–31.12.2016	Goodwill
Gross value at the beginning of the period	**5,949**
Additions	0
Disposals	0
Gross value at the end of the period	**5,949**
Impairment allowance at the beginning of the period	0
Recognition of an impairment allowance during the period	0
Reversal of an impairment allowance during the period	0
Impairment allowance at the end of the period	0
Net value at the end of the period	**5,949**

01.01.2015–31.12.2015	Goodwill
Gross value at the beginning of the period	**5,946**
Additions	3
Disposals	0
Gross value at the end of the period	**5,949**
Impairment allowance at the beginning of the period	0
Recognition of an impairment allowance during the period	0
Reversal of an impairment allowance during the period	0
Impairment allowance at the end of the period	0
Net value at the end of the period	**5,949**

Goodwill amounting to PLN 5,949,000 was recognised in assets. It reflects the difference between the acquisition price paid for 100% shares in Stoczek Natura Sp. z o.o. and the fair value of net assets of that company as at 1 June 2007, i.e. at the date of transferring the title to the shares.

Goodwill at the moment of take-over of a business enterprise is initially measured and recognised at the acquisition price, namely the surplus of the costs of merger over the share of the taking-over company in the net fair value of assets, liabilities and contingent liabilities that may be identified.

After the initial recognition, goodwill is recognised at the acquisition price less any accumulated impairment allowances. Goodwill is not subject to depreciation.

In 2015, in reference to establishing MP Trade Sp. z o.o. the Group recognised a positive difference between the acquisition value of 100% shares and the expenditures incurred on account of the shares taking up. Goodwill amounts to PLN 3,000 and is not subject to depreciation.

Note 17
Other intangible assets

CHANGES IN INTANGIBLE ASSETS

For the period from 1 January 2016 to 31 December 2016

	Other intangible fixed assets				
	Brand equity	Patents, logos, development works	Computer software	Other	Total
Gross value at the beginning of the period	9,087	600	1,362	429	11,478
Additions	0	0	0	0	0
– acquisition	0	0	0	0	0
Disposals	0	0	0	0	0
Gross value at the end of the period	9,087	600	1,362	429	11,478
Amortisation value at the beginning of the period	0	250	990	418	1,658
Additions	0	0	250	11	261
Disposals	0	0	0	0	0
Amortisation value at the end of the period	0	250	1,240	429	1,919
Net value at the end of the period	9,087	350	122	0	9,559

For the period from 1 January 2015 to 31 December 2015

	Other intangible fixed assets				
	Brand equity	Patents, logos, development works	Computer software	Other	Total
Gross value at the beginning of the period	9,087	600	1,362	429	11,478
Additions	0	0	0	0	0
– acquisition	0	0	0	0	0
Disposals	0	0	0	0	0
Gross value at the end of the period	9,087	600	1,362	429	11,478

Amortisation value at the beginning of the period	0	250	732	405	1,387
Additions	0	0	258	13	271
Disposals	0	0	0	0	0
Amortisation value at the end of the period	0	250	990	418	1,658
Net value at the end of the period	9,087	350	372	11	9,820

Depreciation of intangible fixed assets is made at depreciation rates reflecting the expected period of use of the respective assets.

The Group does not depreciate intangible fixed assets of unspecified period of use. Such assets are subject to annual impairment tests and analysis of whether there are any reasons to consider the assets as ones used for a specified period of time.
The respective impairment tests and analyses were carried out as at 31 December 2016.

Note 18
Long-term financial assets

Other long-term financial assets	31.12.2016	31.12.2015
Total long-term financial assets	0	0

Note 19
Inventories

As at 31 December 2016

	Measured at acquisition price/cost of manufacturing	Impairment allowance at the beginning of the period	Impairment allowance recognised	Impairment allowance reversed	Carrying value of inventories at the end of the period
Materials	5,271	2	21	2	5,250
Auxiliary materials	482	0	0	0	482
Work in progress	171	0	0	0	171
Finished products	6,733	0	0	0	6,733
Merchandise	379	0	0	0	379
TOTAL	**13,036**	**2**	**21**	**2**	**13,015**

As at 31 December 2015

	Measured at acquisition price/cost of manufacturing	Impairment allowance at the beginning of the period	Impairment allowance recognised	Impairment allowance reversed	Carrying value of inventories at the end of the period
Materials	4,348	4	0	2	4,346
Auxiliary materials	690	0	0	0	690
Work in progress	63	0	0	0	63
Finished products	6,439	0	0	0	6,439
Merchandise	452	0	0	0	452
TOTAL	**11,992**	**4**	**0**	**2**	**11,990**

Owing to the current turnover of inventories, the Group plans to use in 2017 all of the inventories that are reflected in the statement of financial position as at 31 December 2016 amounting to PLN 13,015,000. Impairment allowances for working assets (inventories) are made when the respective asset can no longer be sold, has been physically damaged, the shelf-life of finished products or raw materials prevent their sale or use, or if the manufacturing cost is higher than the market price. As at 31 December 2016 the Group recognised an impairment allowance for inventories amounting to PLN 21,000.

As at 31 December 2016 the value of registered pledges on finished products, materials and merchandise inventories amounted to PLN 5,000,000, including:

- security for credit agreement with BZ WBK – PLN 5,000,000.

Note 20
Receivables

	31.12.2016	31.12.2015
Trade receivables from other entities:	19,746	22,994
– short-term	19,746	22,994
Receivables from subsidiaries:	0	0
– short-term	0	0
Prepayments:	0	0
– short-term	0	0
Other receivables from other entities	3,807	4,074
– short-term	3,807	4,074
Total gross value of receivables	23,553	27,068
Impairment allowances at the beginning of the period	589	660
Recognition of an impairment allowances during the period	76	7
Reversal of an impairment allowances during the period	589	78
Impairment allowances at the end of the period	76	589
Net receivables	23,477	26,479

IMPAIRMENT ALLOWANCES FOR RECEIVABLES

2016	Balance at the beginning of the period	Created	Utilised and reversed	Balance at the end of the period
Impairment allowances for receivables	589	76	589	76

2015	Balance at the beginning of the period	Created	Utilised and reversed	Balance at the end of the period
Impairment allowances for receivables	660	7	78	589

Other short-term receivables	31.12.2016	31.12.2015
Current VAT	1,382	1,332
Deferred VAT	978	555
Corporate income tax	8	0
Other receivables from the employees	5	6
Security deposits paid	63	61
Factoring – blocked receivables	0	16
Prepayments	1,370	2,102
Other	1	2
Total other gross receivables	3,807	4,074
Impairment allowances for receivables	0	0
Other net receivables	3,807	4,074

GROSS RECEIVABLES – CURRENCY STRUCTURE

Short-term gross receivables	31.12.2016	31.12.2015
– in PLN	23,252	26,129
– in foreign currencies	301	939
a) unit/EUR	68	214
in PLN	301	913
b) unit/USD	0	0
in PLN	0	1
c) unit/GBP	0	5
in PLN	0	25
Short-term gross receivables	**23,553**	**27,068**

TRADE RECEIVABLES – AGING STRUCTURE

	31.12.2016	31.12.2015
1) Current total	16,287	17,409
2) Overdue total	3,459	5,585
a) for up to 1 month	3,345	3,617
b) for over 1 month to 3 months	35	633
c) for over 3 months to 6 months	9	697
d) for over 6 months to 1 year	70	55
e) for over 1 year	0	583
Total gross trade receivables	**19,746**	**22,994**
Impairment allowances for trade receivables	76	589
Net trade receivables	19,670	22,405

Trade receivables comprise amounts on account of commercial transactions made, receivables from a large number of customers from various sectors and geographic areas. The Group is not exposed to a major credit risk of a single contractor or a group of contractors of similar characteristics. Trade receivables bear no interest and are usually payable within 45 to 90 days. Impairment allowances for receivables are made when the contractor is subject to liquidation or bankruptcy, or if the contractor fails to make payment for over 12 months after the payment deadline and its business and financial standing reflects high probability of the absence of payment. Litigated receivables are subject to 100% allowance. The Company has an adequate policy stating that deferred payment sales may be offered solely to verified customers. Transactions with other customers, mainly with foreign contractors, are subject to receivables insurance. Therefore, in the opinion of the management, there is no credit risk above the level reflected in the provision for uncollectible receivables applicable to the trade receivables of Makarony Polskie.

Note 21
Receivables on account of corporate income tax

	31.12.2016	31.12.2015
Receivables on account of corporate income tax	8	0

Note 22

Loans granted

	31.12.2016	31.12.2015
Balance at the beginning of the period	0	0
Loan granted	0	0
Interest accrued	0	0
Repayment within the period	0	0
Balance at the end of the period	0	0

As at 31 December 2016 the Makarony Polskie Group had not granted any loans.

Note 23

Cash and cash equivalents

	31.12.2016	31.12.2015
Cash at bank and in hand	920	1,002
Total, including:	920	1,002
– cash at bank and in hand assigned to discontinued activities	N/A	N/A

The value of cash and cash equivalents reflects cash value recognised in the statement of cash flows. Cash fair value is equivalent to the cash value in the statement of financial position.

Cash at bank bears interest at variable rates, the value of which depends on the interest rate on overnight bank deposits. Short-term deposits are made for various periods, from one day to one month, depending on the current demand of the Company for cash, and they bear interest at the rates determined for them, respectively. Cash and cash equivalents at the end of the reporting year recognised in the statement of cash flows may be reconciled with the balance-sheet items.

Note 24

Other assets

Other assets	31.12.2016	31.12.2015
– long-term	326	77
– short-term	368	222

Long-term prepayments as at 31 December 2016 amounting to PLN 326,000 comprise advisory services, commission on investment credit at BZ WBK and a guarantee granted by Gothaer SA insurance company.

SHORT-TERM PREPAYMENTS

Short-term prepayments	31.12.2016	31.12.2015
– insurance	161	140
– subscriptions paid	89	26
– public advertising/marketing services		
– electric energy		
– commission on investment credit	30	31
– fees for guarantees granted	23	25
– advisory services	63	
– other	2	
Total	**368**	**222**

LONG-TERM PREPAYMENTS

Long-term prepayments	31.12.2016	31.12.2015
– advisory services	302	
– commission on investment credit	23	53
– fees for guarantees granted	1	24
Total	**326**	**77**

Note 25
Share capital

Share capital of Makarony Polskie SA:

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

Structure of the share capital of the Company:

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

The shares of the Company are ordinary bearer shares quoted on regulated market maintained by Giełda Papierów Wartościowych w Warszawie SA [Warsaw Stock Exchange]. The Company has not issued securities which would grant special control rights to any of the shareholders.

As at 31 December 2016

2015	Type of share	Type of preference	Number of shares	Nominal value		Capital coverage method	Date registered	Right to dividend (from)
				1 share in PLN	Series (issue) in PLN '000			
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**			

As at 31 December 2015

2014	Type of share	Type of preference	Number of shares	Nominal value		Capital coverage method	Date registered	Right to dividend (from)
				1 share in PLN	Series (issue) in PLN '000			
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**			

In the period from 31 December 2016 to the date of publishing these financial statements, the Company has not carried out any further shares issues.

Note 26

Other reserve capital

Other reserve capital	31.12.2016	31.12.2015
Balance at the beginning of the period	37,665	35,034
Changes in the accounting policy	0	0
Balance at the beginning of the period post adjustments (restatement)	37,665	35,034
– share capital issue	0	0
– other changes in capital	0	0
– profit distribution/loss coverage	1,774	2,536
– supplementary capital	39,439	37,570
– hedge accounting application	66	95
Other reserve capital at the end of the period	39,505	37,665

Note 27

Profit/loss from previous years

Profit/loss for previous years	31.12.2016	31.12.2015
Balance at the beginning of the period	5,481	4,676
Errors adjustment	0	0
– profit/loss for previous years at the beginning of the period	5,481	4,676
– disposals on account of transfer to supplementary capital	-1,774	-2,536
– dividend payout	-3,238	-1,573
Profit/loss at the end of the period	**469**	**567**

Note 28

Information on credit and security bonds obtained as at 31 December 2016

LONG-TERM AND SHORT-TERM CREDITS AND LOANS

	31.12.2016	31.12.2015
– long-term	11,117	13,494
– short-term	8,455	8,256

In 2016 only one company of the Group – Makarony Polskie SA – was party to credit and factoring agreements. The information about credit and factoring agreements binding as at 31 December 2016 is presented in the tables below.

In 2016 only one company of the Group – Makarony Polskie SA – was party to credit and factoring agreements. The information about credit and factoring agreements binding as at 31 December 2016 is presented in the tables below.

– Credit in the current account at BZ WBK SA

Credit conditions	31 December 2016
Credit agreement value	PLN 5,000,000
Credit period	18.10.2013–31.05.2017
Interest rate	WIBOR 1M + bank margin compliant with the standards applied by the bank
Credit balance	PLN 2,065,000
Repayment schedule	One-off at the date of maturity
Credit collateral	– Joint mortgage up to PLN 33,000,000 on properties entered in: a) land and mortgage register No. KW RZ1Z/00076860/5 located in Rzeszów, including the assignment of rights under the property insurance policy; b) land and mortgage register No. KW PL1P/00094893/6 located in Płock, including the assignment of rights under the property insurance policy; – blank promissory note issued by the Borrower and promissory note declaration; – registered pledge on inventories of the value not lower than PLN 5,000,000, including the assignment of rights under the registered pledge insurance policy; – security bond by Stoczek Natura Sp. z o.o.;

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

– Investment credit at BZ WBK SA

Credit conditions	31 December 2016
Credit agreement value	PLN 13,849,000
Credit period	18.10.2013–30.04.2020
Interest rate	WIBOR 3M + bank margin compliant with the standards applied by the bank
Credit balance	PLN 10,199,000
Repayment schedule	The credit will be repaid in 52 monthly instalments starting from 31 December 2015, in the following values: 52 instalments of PLN 0.17 million each, plus the 53rd settlement instalment to zero balance.

Credit collateral	– Joint mortgage up to PLN 33,000,000 on properties entered in: a) land and mortgage register No. KW RZ1Z/00076860/5 located in Rzeszów, including the assignment of rights under the property insurance policy; b) land and mortgage register No. KW PL1P/00094893/6 located in Płock, including the assignment of rights under the property insurance policy; – registered pledge on fixed assets (production lines at the Rzeszów plant); – registered pledge on fixed assets of Stoczek Natura Sp. z o.o. (collection of fixed assets at Stoczek Łukowski plant); – transfer of receivables on account of insurance agreement of the object of the pledge; – blank promissory note issued by the Borrower and promissory note declaration; – civil-law security bond by Stoczek Natura Sp. z o.o.

– Working capital credit at BZ WBK SA

Credit conditions	31 December 2016
Credit agreement value	PLN 3,000,000
Credit period	20.05.2015–31.05.2018
Interest rate	WIBOR 3M + bank margin compliant with the standards applied by the bank
Credit balance	PLN 1,417,000
Repayment schedule	The credit will be repaid in 36 monthly instalments of PLN 0.08 million each starting from 30 June 2015.
Credit collateral	– Joint mortgage up to PLN 33,000,000 on properties entered in: a) land and mortgage register No. KW RZ1Z/00076860/5 located in Rzeszów, including the assignment of rights under the property insurance policy; b) land and mortgage register No. KW PL1P/00094893/6 located in Płock, including the assignment of rights under the property insurance policy; – registered pledge on fixed assets (production lines at the Rzeszów plant); – transfer of receivables on account of insurance agreement of the object of the pledge; – blank promissory note issued by the Borrower and promissory note declaration.

– Credit in the current account at Bank Gospodarstwa Krajowego

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

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

The Company signed an annex to the agreement on credit in the current account with Bank Gospodarstwa Krajowego. Pursuant to that annex the repayment deadline has been extended till 30 June 2017, and collateral was supplemented with declaration on submission to enforcement by the Borrower and the security bond provider, made pursuant to Article 777 of the Code of Civil Procedure in the form of a notarial deed.

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

Credit conditions	31 December 2016
Credit agreement value	PLN 5,000,000
Credit period	30.06.2015–29.06.2018
Interest rate	WIBOR 3M + bank margin compliant with the standards applied by the bank
Credit balance	PLN 3,500,000
Repayment schedule	The credit will be repaid in 12 quarterly instalments payable on the last day of each quarter, starting from 30 September 2015, as follows: 11 instalments of PLN 0.25 million each and the last 12th settlement instalment of PLN 2.25 million payable on 29 June 2018.
Credit collateral	– Joint mortgage up to PLN 16,500,000 on properties entered in: a) land and mortgage register No. KW CZ1C/00111425/8 located in Częstochowa, including the assignment of rights under the property insurance policy; b) land and mortgage register No. KW LU1U/00022979/2 located in Stoczek Łukowski, including the assignment of rights under the property insurance policy; – blank promissory note issued by the Borrower and promissory note declaration; – power of attorney to dispose of the current account at BGK; – security bond by Stoczek Natura Sp. z o.o.; – declaration on submission to enforcement by the Borrower and the security bond provider, made pursuant to Article 777 of the Code of Civil Procedure in the form of a notarial deed (up to the amount of PLN 10 million).

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

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

Terms of the agreement	31 December 2016
Agreement value	PLN 9,500,000
Period	Agreement signed for unlimited term
Interest rate	WIBOR 1M + bank margin compliant with the standards applied by the bank
Factoring balance	PLN 7,604,000
Agreement collateral	– irrevocable power of attorney to dispose of the account; – blank promissory note with promissory note declaration.

INFORMATION ON SECURITY BONDS GRANTED AND OBTAINED

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

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

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

Stoczek Natura Sp. z o.o. granted security bonds to the Parent Company Makarony Polskie SA. The balance of the security bonds as at 31 December 2016 is presented in the table below.

Third party liabilities	Name of creditor	Security bond value	Security bond date	Validity date	Balance of the secured liability as at 31.12.2016
Security bond for a credit in the current account amounting to PLN 5.0 million	BZ WBK	PLN 7,500,000	18.10.2013	31.05.2019	2,065,000
Security bond for an investment credit amounting to PLN 15.0 million	BZ WBK	PLN 30,000,000	18.10.2013	30.09.2021	PLN 10,199,000
Security bond for a non-revolving working capital credit in the credit account amounting to PLN 5.0 million	BGK	PLN 5,000,000	30.06.2015	29.12.2018	PLN 3,500,000
Security bond for a credit in the current account amounting to PLN 6.0 million **	BGK	PLN 6,000,000	14.06.2013	30.12.2017	PLN 2,387,000

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

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

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

Note 29
Guarantees obtained

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

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

Note 30

Provision for retirement benefits and equivalent

2016	Balance at the beginning of the period	Created	Utilised and reversed	Balance at the end of the period
Pension benefits and equivalent including:	234	38	58	214
a) long-term	144	7	8	143
b) short-term	90	31	50	71
Other provisions, including:	0	0	0	0
a) provision for financial statements audit	0	0	0	0
b) other	0	0	0	0
Total	234	38	58	214

2015	Balance at the beginning of the period	Created	Utilised and reversed	Balance at the end of the period
Pension benefits and equivalent including:	315	63	144	234
a) long-term	235		91	144
b) short-term	80	63	53	90
Other provisions, including:				
a) provision for financial statements audit				
b) other				
Total	315	63	144	234

The Group had been paying out gratuities to retiring employees in the value specified by the Labour Code and the internal regulations. Therefore, based on the valuation made by an actuary a provision is created for the current value of the retirement gratuity payables.

The provision calculation was made for the existing employees, and does not refer to any staff to be employed in future. The right to gratuity is vested in any employee who reaches the retirement age. For people who are already pensioners (those who have already received the gratuity) no provision is established.

Note 31

Long-term and short-term financial liabilities

LIABILITIES UNDER FINANCIAL LEASE AGREEMENTS

	Current value of minimum fees	
	As at 31.12.2016	As at 31.12.2015
within the period of up to 1 year	709	494
within over 1 year to 5 years	1,429	1,365
Total	**2,138**	**1,859**

OTHER FINANCIAL LIABILITIES – HEDGE ACCOUNTING

	As at 31.12.2016	As at 31.12.2015
within the period of up to 1 year	0	66
within over 1 year to 5 years	0	0
Total	**0**	**66**

Note 32

Other liabilities

	31.12.2016	31.12.2015
Trade liabilities to other entities:	**20,843**	**19,526**
– long-term	0	0
– short-term	20,843	19,526
Liabilities to related companies:	**0**	**0**
– long-term	0	0
– short-term	0	0
Liabilities to other companies	**0**	**0**
Prepayments:	83	121
Other liabilities:	**1,732**	**1,483**
– long-term	0	0
– short-term	1,732	1,483
Total liabilities	**22,658**	**21,130**

Trade liabilities:	31.12.2016	31.12.2015
– to related companies	0	0
– to other companies	20,843	19,526
Total	**20,843**	**19,526**

Public law payables and other	31.12.2016	31.12.2015
– personal income tax	164	142
– social insurance contributions (ZUS)	498	405
– VAT	112	33
– payroll	508	501
– contributions to the National Fund for Rehabilitation of the Disabled (PFRON)	11	8
– corporate income tax	22	0
– liabilities on account of factoring agreements	0	0
– other	417	394
Total	**1,732**	**1,483**

LIABILITIES – CURRENCY STRUCTURE

	31.12.2016	31.12.2015
– in PLN	18,946	16,833
– in foreign currencies	3,712	4,297
a) unit/EUR	839	1,007
in PLN	3,712	4,293
b) unit/GBP	0	1
in PLN	0	4
Total	**22,658**	**21,130**

Note 33
Deferred income

	31.12.2016	31.12.2015
Deferred income	**7,601**	**8,099**
– long-term	7,053	7,531
– short-term	548	568

Long-term and short-term deferred income comprises the subsidies for the purchase of plant and equipment obtained by the parent company Makarony Polskie SA. The subsidies were granted in 2006 and 2009.

If a subsidy refers to an asset, the subsidy fair value is recognised in the deferred income account, and it is afterwards gradually written off in equal annual instalments in the statement of comprehensive income for the estimated period of use of the respective asset.

Note 34
Off-balance-sheet items

(PLN '000)	31 December 2016	31 December 2015
1. Contingent assets	**1,477**	**1,477**
– guarantees and security bonds obtained	1,477	1,477
– secured on property	0	0
– promissory notes	0	0
2. Contingent liabilities	**118,771**	**115,551**
– guarantees and security bonds granted	5,025	0
– secured on property	80,750	80,750
– promissory note payables	32,996	34,801
Total off-balance-sheet items	**-117,294**	**-114,074**

The values of guarantees, security bonds, promissory note payables, mortgages and other off-balance-sheet liabilities have been presented in the above table in their maximum values. The specification does not cover for security bonds among the Group companies owing to the fact that this does not affect the value of off-balance-sheet items.

Note 35
Intercompany transactions

DIVIDENDS PAID OUT AND PROPOSED TO BE PAID OUT

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

- assign PLN 3,237,524.85 to the dividend pay-out, i.e. pay out dividend in the value of PLN 0.35 gross per share;
- assign the remaining part of the profit amounting to PLN 1,772,495.91 to the supplementary capital of the Company.

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

Additionally, the Management Board of the Company has decided that in the subsequent reporting years it will try to recommend to the AGM the payment of dividend to shareholders, although the possibility to pay out the dividend may depend on the value of profit generated, the current investment objectives and the standing of the Company.

SETTLEMENTS WITH RELATED COMPANIES

In 2016 the Makarony Polskie Group companies did not make any major intercompany transactions on other than arm's length basis.

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

Related company	Sales to related companies – total revenues		Purchases from related companies	
	01.01.2016–31.12.2016	01.01.2015–31.12.2015	01.01.2016–31.12.2016	01.01.2015–31.12.2015
Parent Company – Makarony Polskie S.A.	4,339	1,281	13,670	14,666
from/to Stoczek Sp. z o.o.	588	1,209	11,967	14,495
from/to MP Trade Sp. z o.o.	3,751	72	1,701	171

Related company	Receivables from related companies		Liabilities to related companies	
	As at 31.12.2016	As at 31.12.2015	As at 31.12.2016	As at 31.12.2015
Parent Company – Makarony Polskie S.A.	2,152	3,117	170	261
from/to Stoczek Sp. z o.o.	768	3,054	13	50
from/to MP Trade Sp. z o.o.	1,384	63	157	211

SETTLEMENTS WITH SUBSIDIARIES

Subsidiaries	Sales among subsidiaries – total revenues		Purchases among subsidiaries	
	01.01.2016–31.12.2016	01.01.2015–31.12.2015	01.01.2016–31.12.2016	01.01.2015–31.12.2015
Total subsidiaries	4,209	1	4,209	1
from/to Stoczek Sp. z o.o.	3,648	1	561	0
from/to MP Trade Sp. z o.o.	561	0	3,648	1

Subsidiaries	Receivables from related companies		Liabilities to related companies	
	As at 31.12.2016	As at 31.12.2015	As at 31.12.2016	As at 31.12.2015
Total subsidiaries	1,199	0	1,199	0
from/to Stoczek Sp. z o.o.	1,183	0	16	0
from/to MP Trade Sp. z o.o.	16	0	1,183	0

Note 36

Other items related to assets, liabilities, equity, revenues, costs, net profit or statement of cash flows, atypical owing to their nature, size or scope

In 2016 there were no items atypical owing to their nature, size or scope, other than those described in the financial statements of the Group.

Note 37

Major agreements

Agreement with Jeronimo Martins Polska SA

Based on the agreement signed by and between Makarony Polskie SA and Jeronimo Martins Polska SA pasta is sold to the Biedronka chain under the chain's private labels: Vitalia, Pasatni, Dobrusia and Makaron Szlachecki. The revenues under the contract in the reporting year 2016 represented about 30.4% of consolidated sales.

Agreement with Raya Distribution, Egypt

Raya Distribution is a food division of the Raya Holding for Technology and Communications, a public company listed on the Cairo Stock Exchange since May 2005.

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

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

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

The contract between Raya Distribution and Makarony Polskie is part of the long-term strategy of expansion on foreign markets. The Group considers this contract to be of key importance owing to the fact that the African market is now the strategic direction for the Group exports development (apart from the European markets).

Agreements with the Lidl chain

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

Annexes to credit agreements with BGK

In 2016 the Company signed with Bank Gospodarstwa Krajowego annexes to credit agreements of the total contractual value of PLN 11.0 million (as at 31 December 2016 the current credit balance was approx. PLN 5.9 million). This refers to agreements on credit in the current account and non-revolving working capital credit in the credit account.
The changes have been described in the section entitled "Financial standing/Other information/Information on credit and factoring agreements signed and terminated" of these financial statements.

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

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

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

In the reporting year 2016 there were no major events in the activities of the Makarony Polskie Group which would not have been reflected in these financial statements.

Note 38
Remuneration of the Management Board and Supervisory Board Members

MANAGEMENT BOARD

Forename and surname	Function	01.01.2016–31.12.2016		01.01.2015–31.12.2015	
		Fixed	Variable	Fixed	Variable
Zenon Daniłowski (fulfilling his function from 25.05.2012)	President of the Management Board	600	62	600	181
	Total	**662**		**781**	

SUPERVISORY BOARD

Forename and surname	Function	01.01.2016–31.12.2016	01.01.2015–31.12.2015
Roman Sobiecki	Chairman of the Supervisory Board	17	17
Grzegorz Słomkowski (until 28 June 2016)	Deputy Chairman of the Supervisory Board	9	13
Wiesław Wasilewski	Member of the Supervisory Board	11	9
Marek Rocki	Member of the Supervisory Board	6	9
Tomasz Jankowski (until 26 October 2016)	Member of the Supervisory Board	11	19
Michał Słomkowski (since 28 June 2016)	Member of the Supervisory Board	4	
Samer Abdelfatah Mohamed El Waziri (since 03 November 2016)	Member of the Supervisory Board	0	
Total		**58**	**57**

Members of the Supervisory Board receive remuneration for each Supervisory Board meeting in which they participate.

The Management Board and Supervisory Board Members of Makarony Polskie SA have not been paid any remuneration by the subsidiary companies. The Company has not granted any loans to the Management Board and Supervisory Board Members of Makarony Polskie SA.

Note 39
Major events post balance-sheet date in the period from 1 Janary 2016 to the date of submitting these financial statements

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

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

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

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

Conclusion of a major credit agreement with BZ WBK SA

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

The credit is intended for financing a project entitled "Creation of a Research and Development Centre for the Pasta Industry at Makarony Polskie SA". The investment project has been included in the list of projects qualifying for co-financing within Measure 2.1 of the Smart Growth Operational Programme 2014–2020. The Company disclosed the fact in the

current report No. 24/2016 on 11 October 2016. Within the project the Company plans to purchase fixed assets and finance construction works. At the Centre research and development works on innovative health-promoting products to be implemented in the business activities of the Company will be carried out, as well as research work for the issues important to the whole pasta industry.

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

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

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

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

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

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

Note 40
Significant principles of accounting applied to the financial statements

FX TRANSACTIONS AND MEASUREMENT OF FX POSITIONS

Consolidated financial statements are presented in the currency of the basic business environment in which the companies pursue their business activities. Polish zloty (PLN) is the functional and reporting currency of the Company, and all values are given in PLN thousands, unless otherwise specified (PLN '000).

Transactions in currencies other than PLN are converted into PLN at a rate applicable as at the transaction conclusion date.

As at the balance sheet date, monetary assets and liabilities expressed in currencies other than PLN are translated into PLN at the mean exchange rate determined for that foreign currency by the National Bank of Poland and applicable as at the end of the reporting period. Exchange differences resulting from translation are recognised under financial income (costs) or, in cases provided for in the accounting policy, capitalised in the value of assets. Non-monetary assets and liabilities recognised at their historical cost expressed in a foreign currency are accounted for at the historical rate of the date of transaction. Non-monetary assets and liabilities recognised at their fair value expressed in a foreign currency are translated at the rate of the date of measurement to fair value.

SUPERIOR PRINCIPLES OF ACCOUNTING

The Group applies the principles ensuring a fair and clear presentation of the assets, financial standing, financial result and profitability on a continuing basis.

Continuity – this principle requires applying on a continuing basis of the adopted principles of accounting, including but not limited to identical grouping of business operations, measurement of assets, and also depreciation, measurement of liabilities, determination of the financial result and preparation of financial statements. For the particular reporting periods, opening balance is equal to the closing balance of the previous period.

Going concern – this principle signifies an assumption made when measuring assets and liabilities and determining the financial result that, in the foreseeable future, an entity will continue its business activity in a scope that would not be significantly limited, unless it is contrary to the actual or legal status.

Accrual basis – this principle consists in including all income generated in a given period and expenses attributable to that period, regardless of the date of their payment.

Prudence – this principle requires recognition in the result, regardless of its value, of any deterioration in utility value of an asset, adjustment resulting from permanent changes in prices, recognition of only unquestionable other income and extraordinary profits and all other expenses and extraordinary losses incurred.

The Group applies the superior principles of measurement based on historical price of acquisition/ purchase or cost of manufacturing, except of measurement of financial assets that, in accordance with IFRS, are measured at fair value.

REPORTING OBLIGATIONS RESULTING FROM THE ORGANISATIONAL STRUCTURE

The parent company prepares consolidated financial statements. The parent company and its subsidies have no branches that would prepare separate financial statements or aggregate financial statements.

REPORTING ON 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 the allocation of resources to the respective segment and assessing the segment financial results. The Group operates in the following reporting segments: pasta, ready-cooked meals and preserves, jams, raw materials and other.

As regards geographic areas of operation, the Makarony Polskie Group does not practically account for other segments than domestic sales. Export sales are insignificant for generated income. The Group operates mostly in the territory of Poland, the regions of which are deemed a uniform area because of their closeness, similar economic conditions and general risk.

NON-CURRENT ASSETS HELD FOR SALE AND DISCONTINUING OF OPERATIONS

Non-current assets held for sale and discontinued operations are assets or groups of assets qualified in that category that are recognised in the financial statements in the amount lower of the two: the carrying amount or fair value decreased by the costs of sale. As of the moment a given company classifies assets as held for sale, it abandons making depreciation charges.

Non-current assets and a group of net assets are classified as held for sale if their carrying amount will be rather recovered as a result of their sale than their continuing use. Assets may be classified to that group only if the management of the entity is actively looking for a buyer and if it is highly probable that the assets will be disposed of within one year from the date of classifying them, plus the assets must be immediately available for sale.

TANGIBLE FIXED ASSETS

Tangible fixed assets comprise assets such as property, plant and equipment and tangible fixed assets under construction, which entities intend to use in their activities and for administrative needs in a period longer than 1 year, and which will bring future economic benefits to the entities. Such assets are recognised at their purchase price or costs of their manufacturing, extension or modernisation after deducting the depreciation charges and impairment allowances to date. Expenditures on fixed assets include investments made in them, as well as expenditures on future delivery of plant, equipment and services related to fixed assets manufacturing. The initial value of tangible fixed assets includes their purchase price increased for all costs related directly to the purchase and adjustment of the asset to the fit for condition (extension and/or construction, modernisation, costs of third-party finance). Costs incurred after the date the fixed asset is put into service, such as the costs of maintenance and repair, are recognised in the statement of comprehensive income when incurred. Later expenditures are taken into account in the carrying amount of the given fixed asset or recognised as a separate fixed asset (where appropriate) only when it is probable that some economic benefits will be achieved by the Group from that item, and the cost of that item may be measured reliably.

Tangible fixed assets are depreciated on a straight-line basis over the term of their expected use. Fixed assets are depreciated at the rates reflecting their projected period of use. Depreciation starts when the fixed asset is available for use, whereas it ceases at the earlier of the dates: when a fixed asset is classified as held for sale or is derecognised. The depreciation method, depreciation rate and the final value are verified as at each reporting date. Any adjustments resulting from verification are recognised as change in estimates, in accordance with the guidelines specified in IFRS 5 "Non-current assets held for sale and discontinued operations", or are derecognised. Fixed assets worth less than PLN 3,500 are redeemed on one-off basis in the month in which they are put into service, with an exception of a group of assets of their unit value below PLN 3,500 that are redeemed over the period of their economic use, if it is relevant.

If, at the time the financial statements are prepared, some circumstances have occurred which show that it may be not possible to recover the carrying amount of property, plant and equipment, such assets are reviewed in terms of potential impairment. Should there be any indications of impairment, and the carrying amount is higher than the estimated recoverable amount, then value of these assets or funds-generating units to which these assets belong is lowered to the level of the recoverable amount. Impairment allowances are recognised in the statement of comprehensive income under "Other costs".

A given tangible fixed asset may be removed from the statement of financial position after its disposal or when no economic benefits resulting from its use are expected. Any profits or losses resulting from derecognition of that asset (calculated as a difference between any potential net proceeds on sale and the carrying amount of that item) are recognised in the statement of comprehensive income in the period in which such derecognition took place.

Tangible fixed assets comprise but are not limited to:

- real property, i.e. land, buildings and civil engineering structures,
- acquired land perpetual usufruct rights,
- vehicles,
- plant and equipment,
- other movable fixed assets.

Land and land perpetual usufruct right are not depreciated.

FIXED ASSETS UNDER CONSTRUCTION

Fixed assets under contribution are fixed assets during the period of their construction or assembly, or improvement of an already existing fixed asset, and they are measured as total costs directly related to their procurement or manufacture, decreased by the potential impairment allowances.

Fixed assets under construction are not subject to depreciation by the end of construction and putting them into service.

COST OF THIRD-PARTY FINANCE

The costs of third-party finance are capitalised as a part of the cost of manufacturing of fixed assets. The costs of third-party finance include interest and foreign exchange gains or losses up to the amount reflecting an adjustment of the interest cost.

INTANGIBLE FIXED ASSETS

Intangible fixed assets include assets of the Company that do not have any physical shape, are identifiable, may be measured reliably and will result in future economic benefits to the entity.

Intangible fixed assets include:

- property rights (inclusive of licences, software, concessions, copyrights and subsidiary rights),
- rights to inventions, patents, trademarks, utility models and registered designs, know-how,
- goodwill,
- costs of completed R&D works the outcome of which will be used in manufacturing new or improved products or technologies.

Intangible fixed assets acquired from a business entity under a separate transaction are capitalised at their purchase price or at the cost of their manufacturing (cost of completed R&D works). With the exception of R&D works, self-constructed intangible fixed assets are not recognised as assets, and the expenditures incurred for their manufacturing are recognised under costs of the given period.

Such determined value is recognised in the financial statements under assets of the statements of financial position as the net value, that is, after deducting the depreciation charges and impairment allowances to date.

Intangible fixed assets are depreciated at the depreciation rates reflecting their projected useful lives.

Expenses regarding intangible fixed assets that do not lead to improvement or prolongation of the period of their use are recognised as costs when incurred. Otherwise they are capitalised.

The Group does not depreciate intangible fixed assets with indefinite useful lives. They are each year tested for impairment and analysed in terms of indications for considering these assets as used for indefinite period.

IMPAIRMENT OF TANGIBLE AND INTANGIBLE FIXED ASSETS

As at each reporting date, the Group carries out a review of the carrying amount of fixed assets. Should there be any indications of impairment of tangible and intangible fixed assets, a recoverable value of such an asset is estimated. The determined impairment loss amounts decrease the carrying amount that they refer to and are recognised in the statement of comprehensive income (impairment allowances).

The impairment allowance value is determined as an excess of the carrying amount of an asset over its recoverable amount. A recoverable amount is the higher of the two values: net sale price decreased by the costs of sale or utility value. When determining the utility value, estimated future cash flows are discounted to current value at a gross discount rate reflecting the actual market time value of money and risk related to a given asset.

For assets that alone do not generate cash flows, recoverable amount is estimated pro rata to the value of cash-generating units.

The recognised impairment allowances are reversed should the rationale for their recognition no longer exist. The consequences of reversing impairment allowances are recognised as profit or loss, except for the amounts that have previously decreased the revaluation reserve, as they adjust the said revaluation reserve to the amounts of previous decreases.

CASH AND CASH EQUIVALENTS

Cash and cash equivalents include cash at bank and in hand plus short-term deposits of the original maturity term not longer than three months.

The balance of cash recognised in the statement of cash flows consists of the aforesaid cash and cash equivalents.

INVENTORIES

Inventories are assets held for sale in the ordinary course of business, in the process of manufacturing for such sale and in the form of materials or raw materials to be consumed in the manufacturing process or in the provision of services. Inventories include materials, merchandise, finished products, semi-finished products and work in progress.

Inventories of materials and merchandise are measured as at the balance-sheet date at one of the two following values: purchase price (manufacturing cost) or net realisable sales price. Net sales price is a price of sale in the ordinary course of business, decreased by the estimated costs indispensable to effect the sale transaction (rebates and discounts, costs attributable to adjusting the inventories for sale).

As at the balance-sheet date, finished products are measured at the actual manufacturing cost, with the application of the prudence concept.

If the purchase price or technical manufacturing cost of inventories is higher than the net realisable sales price, the Company makes impairment allowances that adjust the prime cost of sale.

Materials, merchandise and finished products go out of the warehouse subsequently, at the prices (costs) of the assets that were first purchased (manufactured) by the entity – FIFO method.

RECEIVABLES

Receivables are recognised depending on the due date stipulated in the contract, i.e. as:

- long-term - when they become due after one year of the balance-sheet date,
- short-term - when they become due not later than one year of the balance-sheet date.

Trade receivables are initially recognised at fair value, that is, at the originally invoiced amounts, and then they are measured at the adjusted purchase price (amortized cost) with the effective interest rate method, as reduced for impairment allowances.

Impairment allowances for trade receivables are made when there is objective evidence that the Group will not get all amounts due under the original terms and conditions of sale. The impairment allowance amount is the difference between the carrying amount of a given asset and current value of the estimated future cash flows, discounted at the effective interest rate. Impairment allowances are recognised under other operating costs or financial costs in the statement of comprehensive income, depending on the type of amount receivable that they refer to.

Settlements in foreign currencies are measured in the course of the reporting period at the mean rate determined for that currency by the President of the National Bank of Poland, applicable on the transaction date, unless other rate is determined in the customs declaration or another document binding for the company.

As at the balance-sheet date, receivables in foreign currencies are recognised in the books and measured at the mean rate determined by the National Bank of Poland for that currency and binding for a given date.

LOANS

Loans are financial assets, other than derivatives, of determined or determinable payments, which are not quoted on an active market. Loans include financial assets that result from providing cash, merchandise or services directly to the other party to the contract, except for financial assets held for sale on short-term basis. Loans include loans granted to entities and transactions on T-bills of the "buy – sell back" type. Loans belong to current assets, unless their maturity exceeds 12 months from the balance-sheet date. Loans of maturity exceeding 12 months from the balance-sheet date are included in non-current assets. Loans granted are measured at amortized cost by applying an effective interest rate, upon reduction for impairment allowances. Accrued interest is recognised as

financial income in the period to which it refers. The Company makes impairment allowances for the value of accrued doubtful interest, when accrued.

FINANCIAL ASSETS MEASURED AT FAIR VALUE THROUGH PROFIT OR LOSS

Short-term financial assets measured at fair value through profit or loss include assets acquired in order to achieve economic benefits resulting from short-term changes in prices. Short-term financial assets are initially recognised at their purchase price and are measured at fair value at the balance-sheet date. Profits or losses on measurement of financial assets are recognised in the statement of comprehensive income under financial income or costs.

INVESTMENTS IN SECURITIES

As at the initial recognition date, investments in securities are measured at the purchase price adjusted for transaction costs. If the security is delivered after a strictly defined period following the transaction date, investments in securities are recognised and derecognised on the date of concluding the securities acquisition or disposal transaction.

As at the balance-sheet date, investments in securities that are classified as held for trading or available for sale are measured at fair value. When securities are classified as held for trading, profits and losses resulting from the change in fair value are recognised in the statement of comprehensive income for the given period.

As regards assets available for sale, profits and losses resulting from the change in fair value are recognised directly in equity by the time the securities are sold or impairment is recognised. Then, accumulated profits or losses that were previously recognised in equity, are recognised in the statement of comprehensive income.

Investments held by their maturity are financial assets that are not classified as derivatives, of determined or determinable payments and determined maturity that the Management Board intends and is able to hold by maturity.

Short-term investments that may be held by their maturity (e.g. bonds, debentures) are measured at amortized cost determined with the effective interest rate method. Determining the amortized cost, a discount or premium obtained at investment acquisition and settled over the period by its maturity is taken into account.

PREPAYMENTS

The Group capitalises and settles over time any incurred expenses, or consumption of assets, that refer to periods following the month in which they were incurred.

Prepayments include but are not limited to:

- costs and fees referring to specific periods (taxes, fees, insurance premiums, subscriptions, consulting services fees),
- cost of public advertisement in mass media paid in advance,
- financial costs settled over time (bank interest or commissions collected in advance, expenditures related to the purchase of shares and costs of merger by the time of the given investment settlement).

EQUITY

Equity is created and recognised in accordance with legal regulations as well as the Memorandum and Articles of Association of the Company.

Equity consists of:

- core capital (Tier 1) – recognised at nominal value of the registered shares resulting from the Articles of Association of the Company and entry in the National Court Register,
- supplementary capital (Tier 2) (on the sale of shares above their nominal value). Tier 2 capital is created by up to 1/3 of the share capital. It is created in accordance with the Articles of Association from profit distribution and transfer of revaluation reserve on sold and liquidated fixed assets,
- retained profits/losses that include undistributed profit or uncovered losses from previous years,
- net profit or loss.

The costs of shares issue incurred at formation of the Company or share capital increase reduce Tier 2 capital to the amount of share premium, and the remaining part is included in financial costs.

INTEREST-BEARING CREDITS AND LOANS

At the initial recognition, bank credits and loans are recognised at their cost reflecting the fair value of the received funds. In the consecutive periods, credits and loans are measured at amortized cost, by applying the effective interest rate. When determining the amortized cost, all costs related to obtaining a credit or loan are taken into account as well as discounts or premiums obtained at settlement of liabilities.

The statement of comprehensive income includes all consequences concerning the amortized cost and consequences of derecognition of the liability.

LIABILITIES AND ACCRUALS

Liability is an obligation resulting from past events to provide benefits of reliably determined value, which will cause the use of the Group's assets that are already held will be held in future.

Liabilities are originally recognised at fair value. If normal terms of payment are applied, as practised on the market for transactions of similar nature, fair value is the nominal value as at the liability recognition date. As at the balance-sheet date, liabilities are measured at amortized cost, whereas liabilities in foreign currencies are recognised in the books and measured at the mean rate determined by the National Bank of Poland for that currency and binding for a given date.

Accruals include liabilities to be paid for goods or services that have already been received or performed but have not been paid for, either invoiced or formally agreed upon with the supplier, inclusive of the amounts due to the employees.

PROVISIONS

Provisions are made when the Group is under (legal or customary) obligation resulting from past events and when it is probable that fulfilment of that obligation will cause outflow of funds and a reliable assessment of that payment may be made.

When time value of money has a significant effect on the amount of the established provision, the provision is determined by way of discounting the projected future cash flows to current value, at a gross discount rate reflecting the actual market prices of time value of money and the potential risk related to a given liability.

Most notably, the Group makes provisions for:

- certain or highly probable future liabilities the amount of which may be reliably assessed, especially provisions for losses on business operations in progress, inclusive of guarantees and security bonds granted, credit operations, consequences of pending court proceedings,
- future liabilities concerning payment of benefits to employees, especially gratuity related to retirement or disability,
- unused holiday leaves.

PROVISION FOR EMPLOYEE BENEFITS

Great majority of employees hired by the Group is entitled to retirement benefits after the end of the employment relationship. Future retirement benefits will be paid both by the Group and third-party pension funds. In case of pension schemes run by a pension fund, the Company is only obligated to pay specific premiums or contributions.

In case of pension schemes run by the Group for the benefit of its employees, the Group is obligated to provide strictly determined, future retirement benefits in the form of gratuity related to retirement or disability.

Payment of specific premiums/contributions for the benefit of the employees to a pension fund is recognised under cost of core business in the reporting period to which they payment refers. Any difference between the recognised costs of benefits and the value of premiums/contributions paid to pension funds in a given reporting period is reflected in the balance sheet as receivables or payables.

The Group applies actuarial measurement (based on valuation prepared by an independent actuary) in order to determine the current value of future liabilities and the costs of current period related thereto. Measurement of provisions for employee benefits is made based on the projected unit credit method, taking into account the requirements of the International Financial Reporting Standards, and most notably IAS 19.

Provisions are measured based on the current value of future liabilities of entities on account of employee benefits.

The measurement is based on the Group's internal regulations, specifically Payroll Regulations, and the applicable legal regulations.

LEASES

Financial lease agreements, that as a rule transfer the whole risk related to and all benefits resulting from owning an object of lease onto the Group, are recognised under assets of the Company as at the lease start date at the lower of the two values: fair value of the fixed asset being the object of lease or current value of the minimum lease fees. Lease fees are split between financial costs and decrease in the balance of lease related liabilities, in a way allowing to obtain a fixed interest rate on the liability still to be repaid. Financial costs are accounted for directly through the statement of comprehensive income. Fixed assets used under financial lease agreements are depreciated for a period shorter of the two: estimated useful life of a given fixed asset or term of lease. Lease agreements in accordance with which the lessor maintains generally the whole risk related to and all benefits resulting from owning an object of lease are classified as operating lease agreements. Lease fees under operating lease and any later lease instalments are recognised, with the straight-line method, as costs in the statement of comprehensive income throughout the term of lease.

REVENUE

Revenue is recognised in the amount in which it is probable that the Company gets economic benefits related to a given transaction and when the amount of the revenue may be measured in a reliable way. Sales revenues are recognised at their net value, that is, reduced for output VAT and discounts. The following criteria are applicable when revenue is determined:

Sales of merchandise – Revenue is recognised if significant risk and benefits resulting from the ownership right of merchandise and products is transferred to the buyer and when revenue amount may be measured in a reliable way.

Provision of services - Revenue on the provision of services is recognised when services are provided.

Interest – Interest income is recognised gradually when interest accrues (taking into account the effective interest rate being the rate discounting future cash inflows over the estimated time of use of financial instruments) to the net carrying amount of a given financial asset.

DIVIDENDS

Dividends are recognised when the shareholders' rights to receive them are determined.

CURRENT TAX

Current tax liabilities and assets for the current period and previous periods are measured at the amount of the expected payment to the tax authorities (to be reimbursed by the tax authorities) with the application of tax rates and tax regulations that are legally or actually binding as at the balance-sheet date.

The current tax charge is calculated based on tax result (tax basis) of a given reporting year. Tax basis differs from gross profit (loss) due to exclusion of taxable revenues and tax-deductible costs in the consecutive years, as well as cost and revenue items that will never be taken into account in tax settlement. Tax charges are calculated based on tax regulations and rates applicable in a given reporting year.

DEFERRED TAX

For the needs of financial statements, income tax is calculated in line with the balance-sheet method to all temporary differences occurring as at the balance-sheet date between the tax value of assets and liabilities and their carrying amount shown in the financial statements.

Provision for deferred tax is recognised referring to all positive temporary differences:

- with the exception of a situation when the deferred tax provision results from the initial recognition of goodwill or initial recognition of an asset or liability at the time of transaction other than merger of business entities, and when the transaction, at the moment of its conclusion, has no impact on gross financial result, taxable income or tax loss; and
- in case of positive temporary differences resulting from investments in subsidiaries – with an exception of a situation when the terms of reversing the temporary differences are subject to control by the investor and when it is probable that in foreseeable future the temporary differences will not be reversed.

Deferred tax assets are recognised in reference to all negative temporary differences, as well as to unused tax credits and tax losses carried forward to the subsequent years, in the amount in which it is probable that taxable income will probably be generated to which the aforesaid differences, credits and losses can be applied:

- with the exception of a situation when deferred income assets referring to negative temporary differences result from initial recognition of an asset or liability at the time of transaction other than merger of business entities, and when the transaction, at the moment of its conclusion, has no impact on gross financial result, taxable income or tax loss; and

- in case of negative temporary differences resulting from investments in subsidiaries, a deferred tax asset is recognised in the balance sheet only in the amount in which it is probable that in foreseeable future the temporary differences will be reversed and income allowing for deduction of the negative temporary differences will be generated.

The carrying amount of a deferred tax asset is verified as at balance-sheet date and is lowered respectively if it is no longer probable that sufficient taxable profit will be available to allow complete or partial realisation of the deferred tax asset.

Deferred income tax assets and deferred tax provisions are measured at the tax rates that, as projected, will be binding when the asset will be realised or when the provision will be reversed, taking as a basis the tax rates (and tax regulations) binding as at the balance-sheet date or the ones as to which we know for sure as at the balance-sheet date that they will be binding in future.

Income tax referring to items recognised directly in equity is recognised in equity, and not in the statement of comprehensive income.

VALUE ADDED TAX

Revenue, costs and assets are recognised after being reduced for VAT, except:

- when VAT paid at the acquisition of assets or services cannot be recovered from tax authorities – it is then accounted for as part of the cost of the given asset or as part of the cost item; and
- receivables and payables that are recognised in financial statements taking into account the amount of the value added tax.

The VAT amount recoverable from or to be paid to tax authorities is recognised in the statement of financial position as part of receivables or payables.

Note 41
Objectives and principles of financial risk assessment

The major financial instruments of which the Group avails are bank credits, factoring and cash. The main purpose is to ensure finance for the basic activities of the Group. Moreover, the Group has other financial instruments, such as trade receivables and trade liabilities, which originate within the activities carried out.

Interest rate risk, liquidity risk and credit risk are among the main types of risks resulting from the financial instruments of which the Group avails. The Group monitors on a current basis also the risk of market prices accompanying all of the financial instruments availed of by the Group.

In the opinion of the Management Board of Makarony Polskie SA, the current financial position of the Group, its production potential and market position provide opportunities for further development. There are, however, many factors – mainly of external nature – which may directly or indirectly affect the financial results generated in the subsequent 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 Company and, thus, achievement of the assumed objectives. The activities of the competitors are monitored on a current basis and carefully analysed by the Group Marketing Department. Therefore, the Group is capable of fast reacting to the possible threats.

The 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 finds will accelerate the process.

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

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

Risk of dependence on the recipients

A major part of the revenues is generated by the Group through cooperation with organised commercial networks, which are centralised as regards decision-making. The possible lack of continuity in cooperation with the recipients may affect the sales values. Some commercial agreements do not include strictly determined values of planned purchases to be made by the recipient during the term of the agreement. There is a risk that the recipients will file

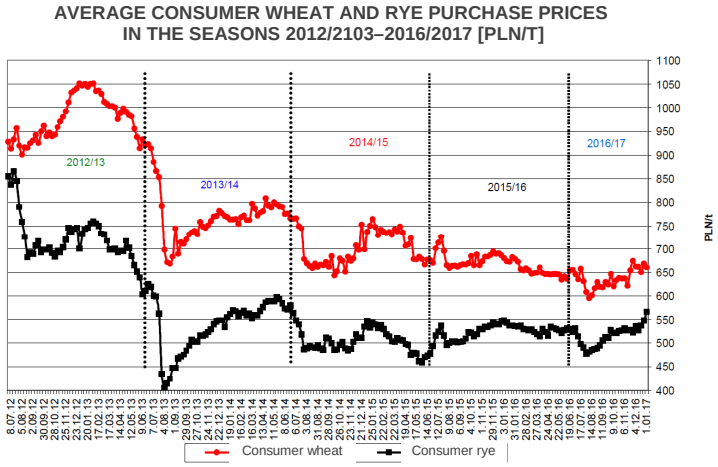
orders which are different in quantity from those assumed by the Group in its monthly plans, which may result in inability to satisfy the demand or incomplete use of production capacity, and this will obviously translate into the Group results. Nevertheless, in the opinion of the Group, the risk is not high, because the quantities of products supplied so far have not significantly fluctuated within a yearly timeframe, staying at the levels which were possible to foresee. Additionally, the Group companies have been systematically implementing solutions for recipients diversification and increase of the number of medium-sized customers.

Risk related to changes in raw materials prices

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

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

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



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

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

Stoczek Natura Sp. z o.o. is a manufacturer of fruit and vegetable products (including jams and salads) as well as ready-cooked meals. The prices of fruit and vegetables are highly dependent on weather conditions. The Company cooperates with domestic suppliers of fruit and vegetables, which gives it the opportunity to buy cheap raw materials. The purchase of fruit and vegetables is carried out seasonally, in the months in which the prices are the lowest. In need the purchased raw materials are stored in the in-house warehouses and cold stores. Stoczek Natura Sp. z o.o. is exposed to the growth of raw materials prices resulting from various abnormal weather conditions. Striving for risk minimisation the Company has extended the base of foreign suppliers of key raw materials. Additionally, in order to optimise plant operation Stoczek Natura Sp. z o.o. has planned to outsource production of those categories of fruit and vegetable products whose market share does not guarantee to the company the optimal use of the possessed production capacity and purchase of raw materials at attractive prices.

Risk of changing legal and tax environment

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

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

Risk related to foreign exchange rates fluctuation

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

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

Risk related to payroll pressure

The latest changes in legal regulations (increase of minimum wage, determination of minimum hourly rate for civil-law agreements) result in growing payroll pressure among the employees and potential candidates. The phenomenon is intensified by the fact that the labour market is growingly more favourable to the employees. The employers, including the Group companies, may have problems in finding adequate candidates to cover vacates among the specialists and managerial staff as well as non-qualified workers.

Interest rate risk

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

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

In 2016 the Company availed of external sources of finance taken out at a bank in the form of working capital credits, credits in the current account and investment credits.

As at 31 December 2016 the Company was liable PLN 19,572 thousand on account of the credits taken out.

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

The Company is liable on account of credits and loans to which variable interest rates apply. Therefore, there is a risk of the interest rates increase in reference to the interest level as at the date of signing the agreement.

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 interest is 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.

Note 42
Capital management

The main objective of the Group capital management is to maintain credit rating and secure levels of capital ratios, which supports the operating activities and increase value for the shareholders.

The Group manages the capital structure and introduces changes thereto in reply to changing economic conditions.

In 2016 activities related to the sources of finance continued with the aim to arrive at a higher effectiveness of the use of finance and lowering the costs of the finance obtaining. The Group availed of a broad range of financial instruments:

- short-term, mid-term and investment bank credits,
- receivables buy-out (factoring),
- fixed assets lease.

The structure of the sources of finance has been subordinated to the required flexibility. This means that in the period of generated financial surpluses the level of indebtedness had dropped (credit in the current account, receivables buy-out balance) and in the period of increased demand, the indebtedness had ensured a stable level of current activities financing.

In 2016 the Group had been timely repaying its interest-bearing liabilities.

Note 43
Financial instruments

The largest share in the structure of the Group's statement of financial position belongs to financial instruments, which on the side of equity/liabilities include trade liabilities and bank credits,

and on the side of assets the main financial instruments are trade receivables (supply of products).

The Group avails of financial instruments to secure the value of assets and liabilities and, therefore, does not apply any formal hedge accounting. Detailed description of the principles of accounting and the applied measurement method for the particular categories of financial assets and liabilities

The Group measures its financial assets and liabilities at the amortised cost, which is close to their fair value.

As at 31 December 2016 and 31 December 2015 the Group did not possess any financial assets or liabilities measured at fair value.

Note 44
Important court litigations, arbitration proceedings or administrative proceedings

In 2016 there were no pending court ligations or any arbitration or administrative proceedings regarding the liabilities or receivables of Makarony Polskie SA or its subsidiaries with the total value representing at least 10% of the equity of Makarony Polskie SA.

Note 45

Headcount of the Makarony Polskie Group

Headcount as at	31.12.2016	31.12.2015
Production	132	135
Administration	21	26
Sales	43	52
Total	196	213

Note 46

Remuneration of the statutory auditor

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

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

Makarony Polskie SA availed of the services of ReVision – Rzeszów Józef Król Sp. z o.o. Sp.k. with regard to review and audit of the financial statements for the reporting years 2010, 2012, 2013, 2014 and 2015.

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

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

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

Additional explanatory notes

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

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

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

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

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Zenon Daniłowski
President of the Management Board

Rzeszów, 21 March 2017

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