REPORT OF THE MANAGEMENT BOARD ON ACTIVITIES OF MAKARONY POLSKIE GROUP IN THE FISCAL YEAR 2011

RZESZÓW, 20 MARCH 2012

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Ladies and Gentlemen,

Acting on behalf of the Management Board, I am presenting you with the Report on the Activities of Makarony Polskie Group in 2011, containing detailed financial data and information regarding significant events which impacted our operation last year, as well as the perspectives for our further growth.

Last year was a very difficult period for the segment of food processing industry in which Makarony Polskie Group operates. Radical increases in the prices of raw materials, whose rate was unprecedented in the earlier history of the Group, resulted in the necessity to repeatedly adjust the prices of products to the growing costs of manufacturing them.
The applied policy for securing the prices of raw materials via the system of contracting flour and meat and by purchasing seasonal vegetables and fruit for the needs of the whole year allowed for reducing the loss, yet they did not make it possible to completely eliminate those. In this situation year 2011 ended with a negative financial result.

In accordance with the assumptions the range of operations was expanding. The level of revenues achieved by the Group in amounted to 210.7 million PLN and was 40% higher in comparison with 2010. After excluding extraordinary transactions connected with the sales of barley in both periods subject to the comparison sales revenues in 2011 increased by 17% and achieved the level of 160.3 million PLN.

The development mainly resulted from organic growth although in 2011 the Group incorporated Tenczynek brand which allowed for expanding the existing portfolio of products and include new assortment of fruit and vegetable preserves. Tenczynek brand products accounted for approx. 3.5 million PLN of total sales revenues. In accordance with 3-year projections products of this brand, positioned in the segment of high quality, traditional Polish food, will generate revenues of over 25 million PLN annually.

As a result of the difficult situation in the market of raw materials and the poorer financial results, during the 2nd half of 2011 Makarony Polskie Group initiated a programme aimed at improving its business effectiveness. It includes three basic tasks which should contribute to reducing costs and improving the profitability margins:

1. achieving permanent profitability in all executed contracts by increasing prices, resigning from unprofitable contracts and implementing the policy for securing costs of raw materials allowing for concurrence of increases in costs of raw materials and prices of products;

2. concentration of pasta production – by closing the plant in Płock and relocating the production to the existing plants in Rzeszów and Częstochowa;
3. reduction of costs of administration and sales by completing the centralization processes, elimination of redundant positions and simplifying the structure of the Group.

The tasks connected with improving the profitability of contracts were executed in 2011, the remaining actions will be gradually implemented during the 1st half of 2012. As a result of the aforementioned endeavours the results of the first half of this year will be burdened with one-time costs of restructuring, but the second half of the year should allow for achieving EBITDA margin at the level of 10% and net profitability at the level of 3%. At the same time sale of redundant property will make it possible to reduce the level of interest bearing liabilities and will ensure investment potential for implementation of development strategy, including acquisitions.

The essential challenge for the coming year involves adequate implementation of the programme aimed at improving operational effectiveness. Temporary reduction of the manufacturing potential will result in a decreased speed of the Group's development in comparison with strategic objectives; however in the opinion of the Management Board introducing such changes is indispensable for creating foundations for the further stable growth.

Taking into account the perspective of achieving the expected level of profitability in the second half of 2012, I wish to express my belief that shares of Makarony Polskie S.A. will be a profitable investment during the current year.

Kind regards,

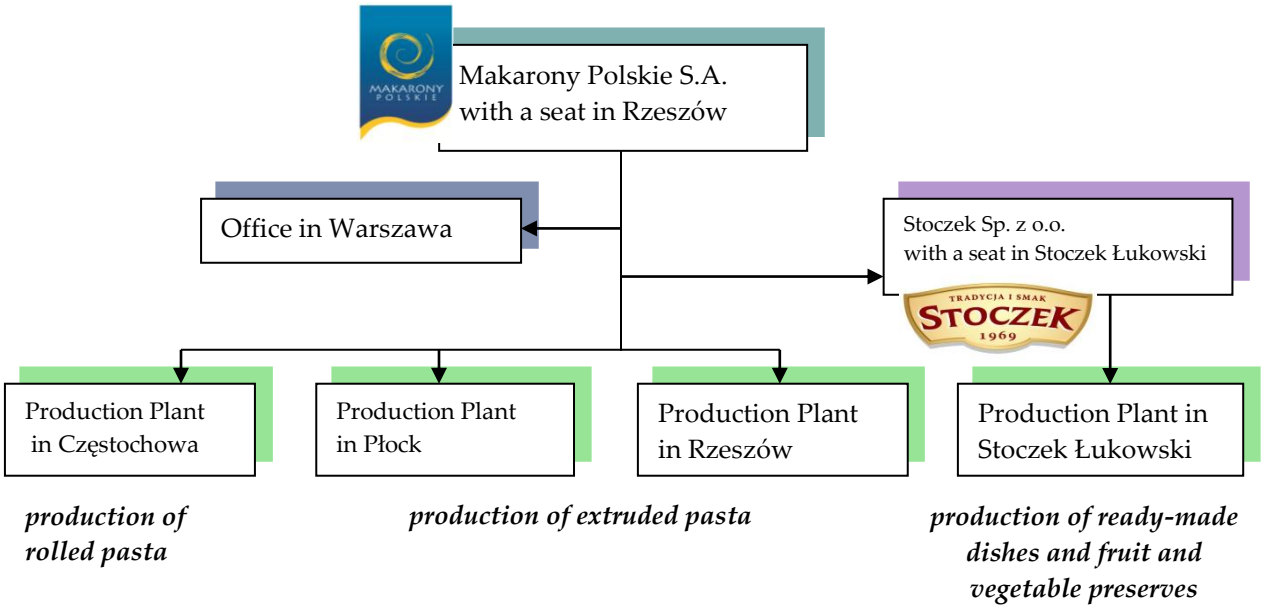
Paweł Nowakowski

1. ATIVITY OF MAKARONY POLSKIE GROUP AND PROSPECTS FOR GROWTH

1.1. DESCRIPTION OF THE GROUP'S ORGANIZATION AS OF 31 DECEMBER 2011, SHOWING CHANGES IN THE GROUP'S ORGANIZATION WHICH TOOK PLACE THROUGHOUT 2011

Makarony Polskie Capital Group ("Group") consists of two companies:

- Makarony Polskie S.A. ("Company", "Parent Company")
- Stoczek Sp. z o.o.



The parent company of Makarony Polskie Capital Group is the joint stock company **Makarony Polskie Spółka Akcyjna** with a seat at Rzeszów, ul. Podkarpacka 15. The Company was registered in the Regional Court in Rzeszów, 12th Commercial Division of the National Court Register on 5 July 2004, against the number 0000212001. The Company was established for an unlimited period of time. In addition to the headquarters and the Production Plant, both located in Rzeszów, the Company owns the Production Plant in Płock, and from May 2008 the Production Plant in Częstochowa (formerly a seat of the subsidiary limited liability company Abak Sp. z o.o., which being part of the Group from 30 September 2007 was incorporated into Makarony Polskie S.A. on 16 May 2008).

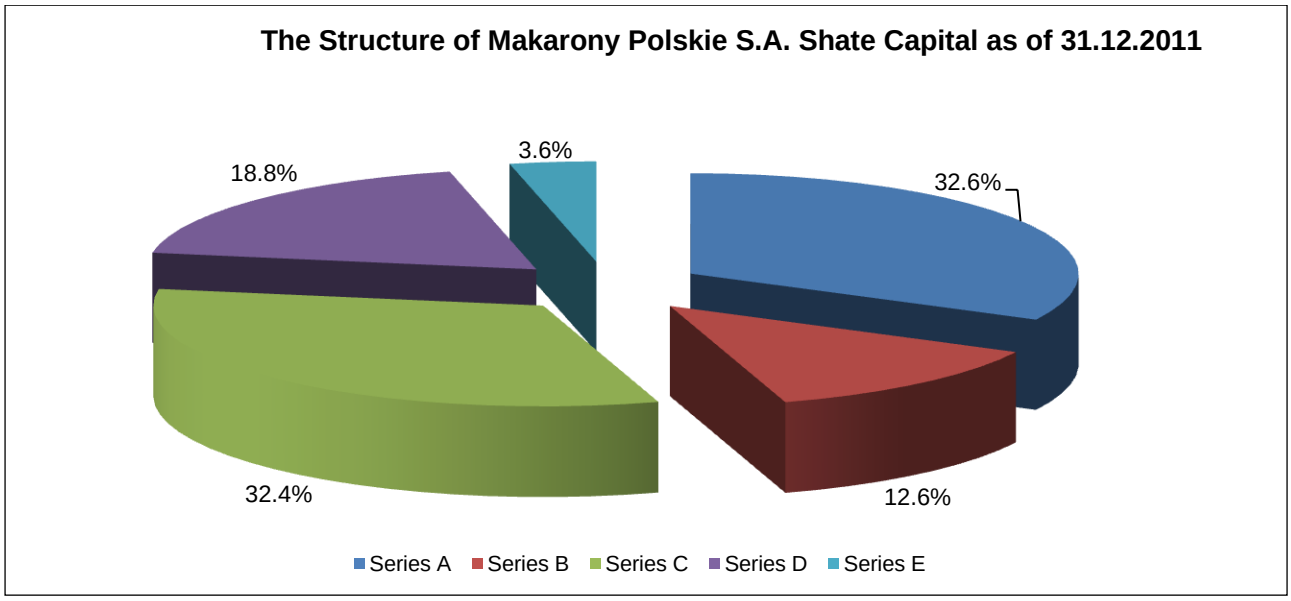
Makarony Polskie S.A. offers a wide assortment of pastas manufactured with or without eggs (incl. rolled and extruded) in a large variety of shapes: spirals, elbows, thin noodles, shells, spaghetti, penne and others. It owns the following pasta brands: SORENTI and ABAK.

Share Capital of Makarony Polskie S.A. on 31 December 2011:

- ✓ Share capital amount 27 750 213 PLN,
- ✓ Total number of shares 9 259 071 shares,
- ✓ Total number of votes at the General Meeting 9 259 071 votes.

The structure of Makarony Polskie S.A. share capital:

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



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

The subsidiary limited liability company, **Stoczek Sp. z o.o.** is registered in the Lublin-Wschód Regional Court in Lublin with a seat in Świdnik, 6th Commercial Division of the National Court Register against KRS number 00000503. The Company was established for an unlimited period of time. The share capital of Stoczek Sp. z o.o. on 31 December 2011, as well as on the day of submitting this report amounted to 15 207 800 PLN and was divided into 152 078 shares. One hundred per cent of the shares in Stoczek Sp. z o.o. are owned by Makarony Polskie S.A. (the shares in Stoczek Sp. z o.o. were purchased on 1 June 2007).

Stoczek Sp. z o.o. is a manufacturer of ready-made meals, meat pates, lard spreads as well as fruit and vegetable preserves on offer under the company's own Stoczek brand. From 2011 the company also owns Tenczynek brand whose catalogue contains jams, plum butter, pickled vegetables, salads and syrups.

Description of changes in the Group's structure from 1 January 2011 to the day of submitting the report

From 2010 Makarony Polskie Group operates within an organizational structure based on three departments:

- Production Department,
- Sales and Marketing Department,
- Financial and Administration Department,

Makarony Polskie S.A. implemented the process of centralizing operational functions connected with procurement, customer service, logistics and sales. Management and quality systems functioning within the Group, including ISO, BRC and IFS were integrated and a unified ERP-class management support information system was introduced.

The organizational structure introduced in 2010 was designed to support the implementation of the Group's development strategy for 2010 – 2012. The strategy assumed an increase in the Group's revenues from 117 million PLN in 2009 to the minimum of 300 million PLN in 2012, a growth in net profitability from 2% in 2009 to 4% in 2012 as well as an increase in EBITDA profitability rate from 8% in 2009 to 12% in 2012. The strategic goals were to be achieved through organic growth at the minimum rate of 20% annually additionally supported with acquisitions, a growth in sales of the existing assortment of goods, expansion to new segments of market, as well as emphasis on the development of the Group's brand products.

Until 2011 the strategy was being implemented in accordance with the plan. The organic growth exceeded the level of 20% annually, and the Group conducted negotiations connected with expanding its structures by means of acquisitions and mergers. This resulted in a merger contract concluded with Mispol company in December 2010 as well as taking over Tenczynek brand under a contract executed in February 2011.
The transaction with Mispol was not executed due to the internal situation of the partner. Additionally, negative external factors, being outside the Group's control, such as the global economic crisis and massive increases in the prices of raw materials (initiated in 2010 and continuing in 2011) resulted in a radical decrease of the Group's profitability last year. Therefore Makarony Polskie S.A. was forced to review its long-time intentions and plans and to focus on medium-term perspectives; this resulted in

efforts aimed at reducing costs and allowing for regaining profitability on basic operations. Due to the fact that it was impossible to provide financing for acquisitions and the previously occurring organic growth, it became necessary to reduce development plans and adjust the organization to the scale of operation that was smaller than it was earlier expected. In the 4th Quarter of 2011 the Company initiated actions aimed at flattening its organizational structure and reducing employment to adjust it to the size of conducted business.

The last transaction of acquisition resulting from the implementation of the strategy aimed at the dynamic growth of Makarony Polskie Group was the purchase of fixed assets and legal rights connected with new assortment of products manufactured under Tenczynek trademark, which was executed in 2011. Changes in the organizational structure resulting from this transaction are insignificant because production of Tenczynek brand goods was located in Stoczek while the sales are executed by the structures of Makarony Polskie S.A. Following the transaction there was a temporary increase in costs, however after the process of taking over the assets and starting up the production was completed there has been a significant improvement in effectiveness at the operational and sales level – this will be visible in the results for 2012.

1.2. Supervisory and Management Personnel in the Companies of the Group

I. Makarony Polskie S.A.

Detailed information regarding the management and supervisory personnel of Makarony Polskie S.A. has been provided in clauses 5.8 and 5.11 herein.

II. Stoczek Sp. z o.o.

The governing bodies of the subsidiary company, Stoczek Sp. z o.o. are the Management Board and the Meeting of Shareholders.

In the period from 1 January 2011 to 1 March 2011 the Management Board of Stoczek Sp. z o.o. consisted of:

- ✓ Jacek Wilkoszewski – President of the Management Board,
- ✓ Leszek Trzciński – Vice-President of the Management Board.

On 1 March 2011 Jacek Wilkoszewski resigned from the position of the President of the Management Board of Stoczek Sp. z o.o.

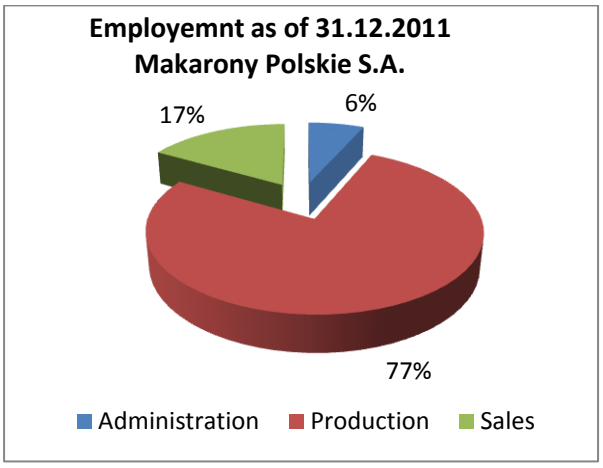
In the period from 1 March 2011 to the day of publication of this Report the Management Board of Stoczek Sp. z o.o. has consisted of:

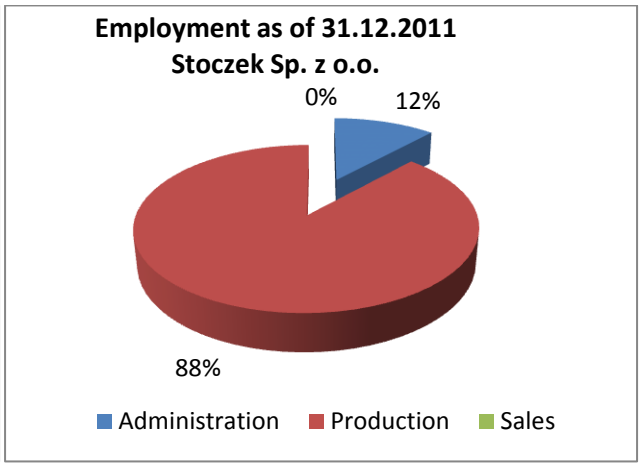
- ✓ Leszek Trzciński – President of the Management Board (until 30 March 2011 - Vice-President of the Management Board).

1.3. EMPLOYEES OF THE GROUP

On 31 December 2011 the employment within Makarony Polskie Group was as follows:

- ✓ Makarony Polskie S.A. – 378 employees,
- ✓ Stoczek Sp. z o.o. – 102 employees.





1.4. PRIMARY PRODUCTS, GOODS AND SERVICES

In 2011 the catalogue of the Group's brand products on offer included:

1) PASTAS

- **Abak** – traditional style pasta, produced from selected kinds of flour, containing 5 or 2 eggs, or with no eggs, available packaging 250g, 400g and 800g,
- **Sorenti** – modern "Italian-style" pasta; 100% top quality Durum wheat product; made following the Italian recipe, packaging 500g, 400g,

2) SAUCES FOR PASTA

- **Sorenti** – typical, most popular Italian-style sauces, made of natural tomato paste and top quality seasoning, without preservatives, flavours, and colours, available in packaging of 285g and 430g,

3) READY-MADE MEALS

- **Stoczek** – 13 traditional meals, produced exclusively of natural ingredients: without preservatives, flavours, and colours, packaging: jar of 500g,

4) JAMS

- **Stoczek** – mainly low-sugar jams of most popular flavours; packaging - jar of 280g,
- **Tenczynek** – low-sugar jams of refined flavours and traditional unique recipes; packaging of 320g,

5) MEAT PRESERVES WITH LARD

- **Stoczek** – traditional types of bread spread: lard, canned stewed and minced meat, packaging: jars of 240 – 500g,

6) MEAT PATES

- **Stoczek** – meat pates of 2 types, and packaging of: 270g – 470g,

7) PICKLED VEGETABLES AND OTHER VEGETABLE PRESERVES

- **Tenczynek –** traditional vegetable-based cold or hot side dishes adding variety to main courses, such as: salads, cucumbers, bell pepper, beetroots, beetroot salads, horseradish, etc. These as a rule are consumed during winter and early spring when the availability of fresh vegetables is limited. They are packed in glass containers of various capacity depending on the product type: salads - 500g, pickled vegetables from 280g to 860g, and other vegetable preserves from 190g to 500g;

8) SYRUPS

- **Tenczynek** – fruit syrups, traditionally consumed during autumn and winter, most frequently added to tea, beer, water as well as desserts. Even though their consumption during summer is significantly lower, they are diluted in water and used for making cooling beverages. They are packed in glass bottles of 490 ml, and from the end of 2011 in glass bottles of 400 ml.

I. SORENTI

Sorenti brand has been designed for enthusiasts of Italian cuisine. Products of this brand stand out for truly Italian flavour, original recipe and high quality. In 2011 Sorenti brand portfolio consisted of 12 types of pasta and 3 kinds of sauces for pasta.

100% of Sorenti pasta is made of flour obtained by grinding hard-grain Durum wheat of top quality, due to which the pasta may not be overcooked and remains al dente. Sorenti pastas feature the best taste qualities, after cooking they do not become sticky, they are springy and firm and have beautiful golden colour.

Sorenti brand sauces for pasta are made exclusively of natural top quality ingredients and seasoning, without preservatives, flavours, and colours. Juicy tomatoes and aromatic herbs with the prevailing tinge of basil and oregano constitute the delicious Napoli tomato sauce and the fine Bolognese tomato sauce containing high quality meat. Additionally the catalogue is supplemented with Arrabiata tomato and herb sauce with hot chilli peppers. The processes of pasteurization and sterilization allow for the Sorenti sauces to retain the wealth of nourishing qualities and vitamins, and they do not require special storage conditions.

II. ABAK

ABAK brand meets the needs of consumers who favour traditional, homemade pastas. It includes 3 categories of pasta: those containing 2 or 5 eggs, recommended for soups, and pasta with no eggs recommended for main courses. Pasta of this brand is available in the most popular shapes: noodles, grated noodles, spirals, spaghetti and other.

III. STOCZEK

- **READY-MADE DISHES**

The line of Stoczek ready-made dishes includes 13 traditional meals, mainly of Polish cuisine, prepared with great care, in accordance with traditional recipes. They are made exclusively of natural, carefully selected ingredients, with no preservatives, artificial colours and flavours.

Stoczek brand meals combine homemade-style flavours with comfortable and quick mode of cooking. They are perfect for situations in which there are no good conditions or time for preparing meals from scratch, but they can also be used in the kitchen as a basis for preparing more elaborate dinner.
Their long, two-year period of the best-before date results from the process of thermal sterilization (i.e. heating the food in the temperature exceeding 100o C), which is a natural method of enhancing shelf life of food products.

- **MEAT PATE, LARD**

Meat pates produced by Stoczek feature distinctive tastes and flavours of Polish herbs and spices, that is why they resemble homemade meat pates made in the past. In 2011 the brand catalogue contained 4 indexes: Mazowiecki and Luksusowy meat pates, each in two sizes.
Stoczek brand meat preserves with lard are made of lard, pork, onions and Polish aromatic herbs and spices. They taste delicious with fresh bread. On the one hand they are an idea for old Polish tasty starters, and on the other hand they are semi-finished products which may be used for preparing some dinner dishes.

- **JAMS**

Made of fruit collected in Polish orchards, during a fruit season they are produced of fresh fruit and out of season they are made of frozen fruit collected in the summer and frozen by the company. Thanks to that Stoczek jams retain exceptional flavour, aroma and pleasantly intense colour. They do not contain any artificial colours and flavours, or chemical preservatives.
Currently the assortment of jams on offer under Stoczek brand name consists mainly of low-sugar jams (5 flavours) and, additionally, highly sweetened jams (2 flavours) and plum butter.

IV. TENCZYNEK

Tenczynek is a premium brand containing a number of product categories and referring to history and long-time traditions of Polish cuisine; they are dedicated for consumers looking for high quality unique flavour. The brand stands out for its original recipes originating from old Tenczynek which takes pride in its history going back to the 1600s; as a result many of the products are one of the kind in the market, e.g. the rhubarb jam, quince and apple syrup, or Nadwiślańska salad. Tenczynek brand products are

made of selected Polish varieties of fruit and vegetables and do not contain additives or preservatives, and because of this they taste just like they used to in the past.

- **VEGETABLE PRESERVES**
  - pickled cucumbers, Kartuskie cucumbers, pickled bell peppers, pickled bell peppers and chilli, grated celery, pickled mushrooms, pickled mushrooms and chilli;
  - finely grated beetroots, coarsely grated beetroots, beetroot and horseradish salad, concentrate of beetroot soup, liquidized sour cucumbers, Tenczynek-style horseradish;
  - salads: Nadwiślańska, Tenczyńska, Babuni, Rycerska, Warzywny Ogród, Szwedzka, Szlachecka;

- **FRUIT PRESERVES**
  - jams of the following flavours: strawberry, peach, cherry, rhubarb, gooseberry, fruit of the forest with strawberry, peer and quince;
  - plum butter;

- **FRUIT SYRUPS**
  - syrups with the following flavours: raspberry, cherry, black currant, cranberry, raspberry with currant, raspberry with lemon, raspberry with linden, quince and apple, as well as a new flavour for the winter season: raspberry with ginger and cloves;

    In the 4th quarter of 2011 the catalogue of fruit syrups was modified in order to meet consumers' expectations. Products' recipes and the size of packaging were changed (the size of bottles was changed from 490ml to 400ml).

1.5. INFORMATION ON SEGMENTS OF BUSINESS ACTIVITY

For administrative purposes the Group is divided into business units according to the products and services on offer:

	For the period 01.01 - 31.12.2011	For the period 01.01 - 31.12.2010
Sale of products	127 151	119 161
Sale of services, including:	210	626
- rental services	28	12
- distribution services	-	-
- transport services	10	340
- storage, filling, closing	161	260

- other services	11	14
Sale of materials	1 703	3 231
Sale of goods	81 607	26 951
Total	**210 671**	**149 969**

In 2011 Makarony Polskie Group executed sales within the following basic operational segments and obtained the following sales revenues:

	For the period 01.01 - 31.12.2011	For the period 01.01 - 31.12.2010
Pasta	109 897	102 666
Ready-made meals, meat preserves	41 612	28 760
Jams	2 721	1 485
Pickled vegetables and other vegetable preserves	1 291	-
Syrups	1 684	-
Raw materials	51 441	15 431
Other	2 025	1 627
Total	**210 671**	**149 969**

Two new segments: "pickled and other preserved vegetables" and "syrups" have been defined resulting from the acquisition of assets under the purchase contract for selected fixed assets allowing for manufacturing products under Tenczynek brand - transaction of 25 February 2011 is described in point 3.2. herein.

The sale of pasta in 2011 increased by 7.2 million PLN in comparison with 2010 (increase of 7%). The sales of ready-made meals and meat preserves in the same period grew by 12.9 million PLN (increase of 45%). The radical increase of sales in the segment of ready-made meals resulted partly from the fact that the subsidiary Stoczek Sp. z o.o. was executing a significant contract for the delivery of ready-made meals under the programme: Food aid for the European Union poorest people 2011.
During 2011 the most dynamic growth in the sales revenues was noted in the segment of jams (83% in comparison with 2010). This was mainly caused by the expanded distribution of Stoczek brand jams, and by the newly introduced Tenczynek brand jams which have supplemented the catalogue with premium type products.

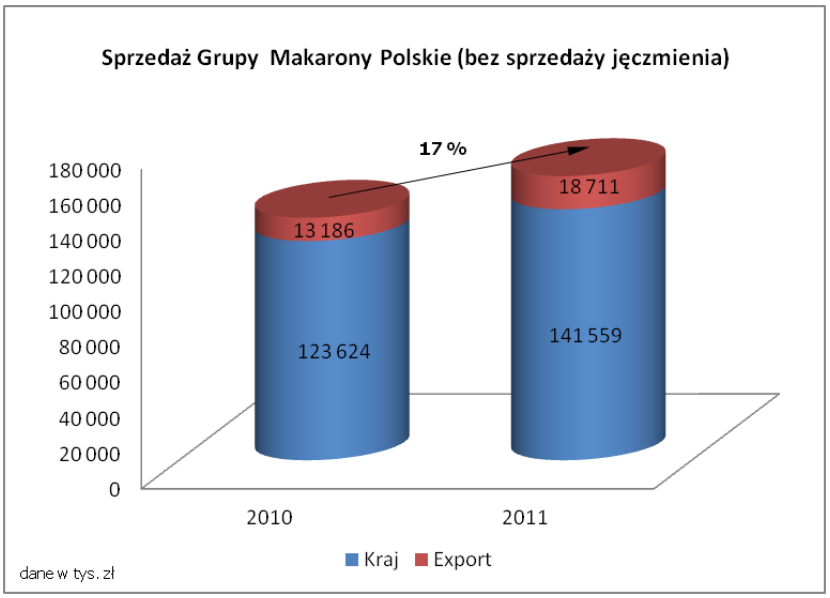
1.6. Sales Structure of Makarony Polskie Group

1.6.1. Sales Revenues Distribution According to Markets– Makarony Polskie Group

Sales revenues of Makarony Polskie Group in 2011 amounted to nearly 211 million PLN and were 41% higher in comparison with the analogous period of 2010. The increase in sales, excluding the revenues resulting from the one-time transaction involving sales of food products (barley) constituting remuneration for goods delivered to the Agricultural Market Agency, in 2011 amounted to 17%, in comparison with the previous year (growth by 23.5 million PLN).

In 2011 the dominant was the domestic market which was responsible for 88% of the Group's sales revenues.

Sales effected by Makarony Polskie Group (excluding sales of barley)

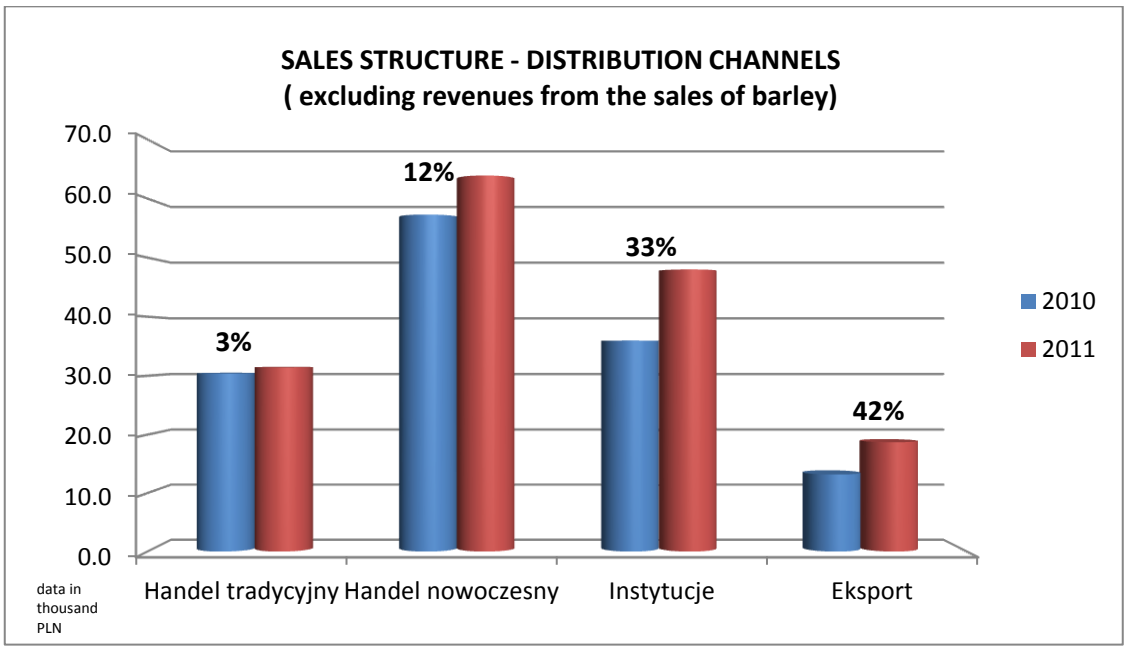


data in thousand PLN; domestic/ export

Domestic Market

The value of domestic sales in 2011 was 141.6 million PLN with an increase of 15% as compared with 2010. This results from a consistently introduced and executed strategy of Makarony Polskie Group with regard to the development and expansion of the sales market.

The structure of sales in terms of distribution channels is shown in the following chart:



Traditional retailing / Modern trade / Institutions / Export

In 2011 the largest per cent increase in sales was noted in export (increase of 5.5 million PLN, i.e. 42%). This was mainly caused by the increase in the private label sales to foreign retail chains. An increase in sales was also reported in the remaining distribution channels.

Traditional Retailing

The Group's sales in traditional retailing channels in 2011 amounted to 31 million PLN, and was 1 million PLN higher than in the previous year. There was a 3% increase in sales in this channel in comparison with 2010. The strategy of Makarony Polskie Group assumes an increase in sales through this distribution channel by introducing new products and expanding the range of products on offer.

Modern trade

The sales value in modern trade amounted to 63.9 million PLN and was 12% higher in 2011 compared with 2010. An increase in the sales in this distribution channel results mainly from concluding new contracts for the sale of brand and private label products.

Institutions

The channel of institutional contracts involved predominantly deliveries of pasta and ready-made meals under the contracts executed for the Agricultural Market Agency, as well as services involving sales of

pasta. In 2011 the total value of sales in the channel of institutional contracts (excluding sales of barley) amounted to 48 million PLN, which accounts for 33% growth in comparison with 2010.

Foreign Market

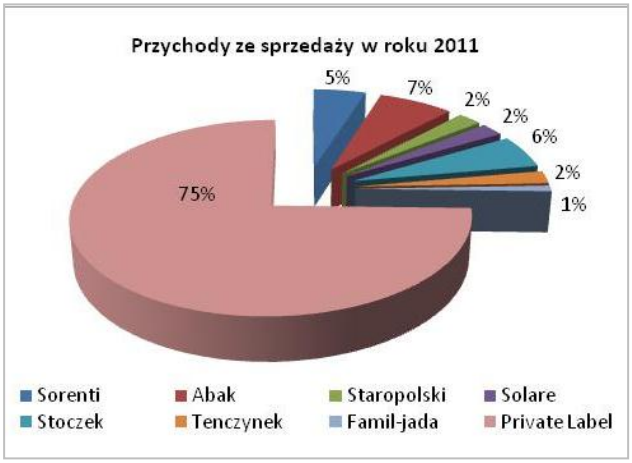
Makarony Polskie Group exports its products to over 20 countries, with the largest volumes sold to clients in Slovakia, Czech Republic, Bulgaria, Ukraine and the Baltic Countries. The value of the Group's export sales in 2011 amounted to 18.7 million PLN, and was 42% higher than in 2010 (13.2 million PLN).

Such increase was possible mainly due to the expansion of the product range, an increase in sales and the acquisition of new clients.

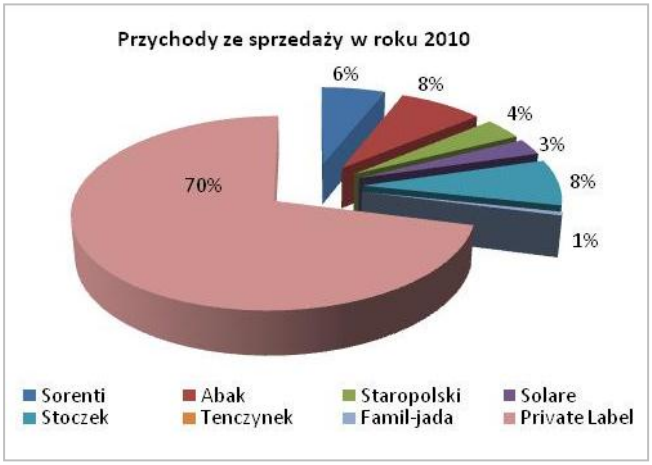
1.6.2. SALES REVENUES DISTRIBUTION ACCORDING TO THE COMPANY'S OWN OR OTHER BRANDS - MAKARONY POLSKIE GROUP

Sales revenues for brand products in 2011 amounted to 40.6 million PLN and increased by 2.2 million PLN compared with 2010, which is a growth of 6%. The decrease in the share of brand products in the total revenues of the Group (5%) resulted from the higher than proportional increase in the sales within the channel of institutional contracts during 2011.

Sales Revenues in 2011



Sales Revenues in 2010



Sales of brand products within the traditional and modern commerce allow the Group to obtain larger profitability on sales as compared to sales of other companies' brands (private label). Therefore Makarony Polskie Group aims at increasing the sales of brand products.

Pasta Brands: Sorenti, Abak

Sales revenues for brand pastas in 2011 amounted to 27.2 million PLN, which is an increase of 0.1 million PLN compared with the previous year, a growth by 0.4%. At the beginning of 2012 Makarony Polskie Group specified its strategic brands (Sorenti, Abak) and decided to gradually drop the less successful products (Makaron Staropolski, Podkarpacki).

Brands for ready-made meals and preserves: Stoczek, Tenczynek

During 2011 sales of the goods in the segments of ready-made meals and fruit and vegetable preserves under the brands owned by Makarony Polskie Group amounted to 13.3 million PLN. This is an increase of 2 million PLN in comparison with 2010 (growth of 18%).

In 2011 only two partners exceeded the level of 10% share in the Group's sales revenues. These were: Jeronimo Martins Dystrybucja S.A. with the share of 16%, and the Agricultural Market Agency with the share of 13%. Makarony Polskie S.A. does not have any formal ties with the aforementioned entities, apart from trading contacts

1.7. Assessment of Capabilities for Implementing Investment Plans and of Prospects For Development of the Groups Business Activity in the Nearest Year

In the 2nd half of 2012, in course of the process aimed at concentrating production of extruded pasta, the Company is planning to relocate the production of extruded pasta from Płock to Rzeszów; this will be followed by the sale of the plant in Płock (3rd quarter of 2012). These endeavours will lead to reducing fixed operational costs and financial costs, which will allow for improving the profitability.

As a result of closing the plant it will be necessary to move the production line of monthly manufacturing capacity amounting to 1,024 tons to the existing plant in Rzeszów. Another manufacturing line, along with other redundant fixed assets will be excluded from use and will be prepared for sale. The expenditure connected with relocating the plant, installation and start up of the technological line in Rzeszów was estimated at the level of 1 million PLN. The redundant assets, whose value exceeds 8 million PLN will be sold and the obtained funds will be designated to decrease the level of interest bearing liabilities.

Other investments planned for 2012 are connected with concluding the implementation of ERP class system and with centralization of IT resources (200 thousand PLN). These investments will allow for increasing operational effectiveness and data safety.

Investments connected with the manufacturing process will be strictly related to the new production projects, particularly in the Plant in Stoczek Łukowski and will be aimed at optimizing the manufacturing

processes (increasing their effectiveness, reducing labour intensity), enhancing the hygiene and conditions of production.

In 2011 the Group showed negative financial result. The main causes for the loss included: the dynamic increase in the prices of the basic raw materials; a delay in integrating the growth of costs with the prices of products on offer (large fluctuations of prices for grains, fruit and vegetables, higher prices of primary raw materials, most importantly flour, meat and fruit than it was initially estimated); as well as unstable situation at financial market. Taking into account the implemented and executed activities aimed at restructuring it is predicted that during 2012 the Company will achieve positive financial results and it will regain profitability.

The key goals and assumptions to be executed in 2012 include:

- ✓ improved gross sales margin which will result from an increase in the prices of products aimed at compensating the growing prices of raw materials – the process was completed by the end of 2011; additionally, implementing activities aimed at reducing contractual notice periods for amending prices,
- ✓ improving the process of obtaining price guarantees for raw materials,
- ✓ reduction of operational costs (concentration of pasta production – closing one production plant),
- ✓ reduction of administrative and sales costs by closing redundant positions,
- ✓ simplification of the Group's organization,
- ✓ reduction of employment – the process will be completed by the end of the first half of 2012,
- ✓ reduction of investments due to the decreased demand for production capacity,
- ✓ increasing prices of products on offer in the case of radical growth in the prices of raw materials,
- ✓ improvement in the monitoring system for the inflow of receivables.

1.8. Characteristics of Risks Relevant for the Business Activity

Risk connected with an increase in prices of raw materials

There is a risk of changes in prices of raw materials, in particular the price of flour and eggs which are the main raw materials in pasta production, and changes in prices of meat (ready-made meals) as well as fruit and vegetable raw materials (jams).

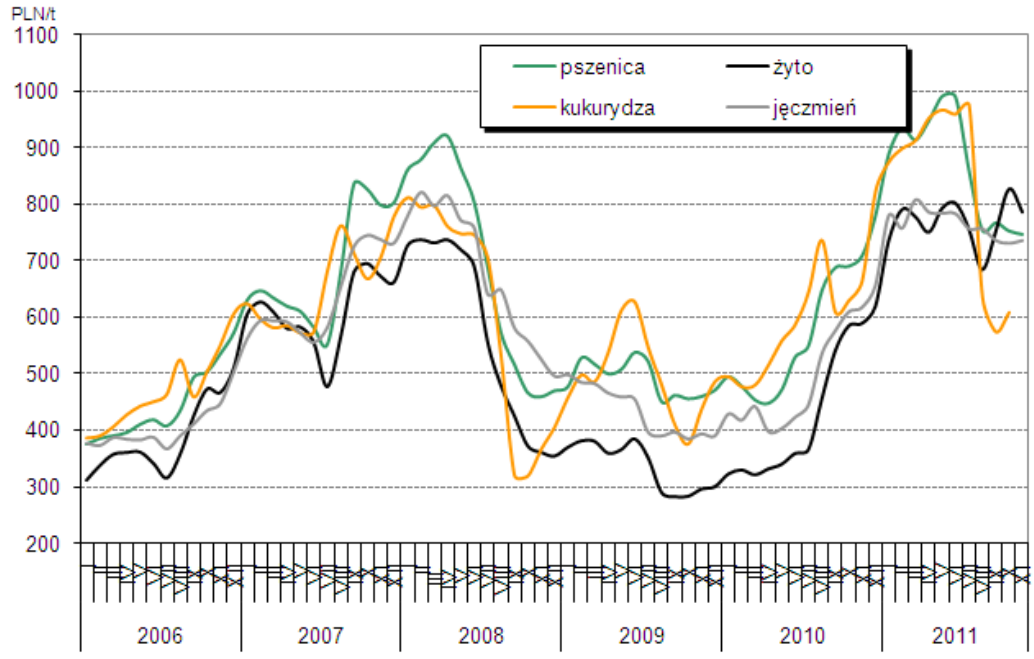
The increase in the prices of raw materials cannot be fully compensated by a proportional growth in sales prices of the Group's products on offer. This is due to the long-term character of cooperation with partners, which results in the fact that an increase in prices of products is hindered and may occur a few months later than the increase in the prices of raw materials. This relates particularly to chain retailing. As a result, within several months changes in the prices of raw materials are reflected in the prices of the

finished product, while in a short-term time frame the Group may incur losses as a result of a dynamic increase in costs, which only later will be reflected in the increased prices of the product. This is particularly effective for products of the private label segment, as one-year contracts related to such production usually contain a price guarantee for at least a three-month period.

The situation at the flour market was stable until the mid-2010, and the prices remained at relatively low level. In the second half of the year, due to natural disasters and rainy weather, which made it impossible to harvest crops in adequate timing, there was a collapse in the market of milling wheat. The 2010 crops of wheat with satisfying quality parameters were the poorest in the last decade, and this resulted in a radical increase in the price of flour made of soft wheat. By the end of 2010 the prices grew by approximately 70% in comparison with the first half of the year.

In the 1st half of 2011 the situation in the cereal market did not improve, another significant increase in prices was noted from January to March. A decrease in prices and certain stabilization can be seen from June 2011. In the 2nd half of the year the price of wheat went down from 920 PLN in July to the average of 830 PLN per ton in December 2011, yet the level of prices was higher than in the same period of the previous year.

The chart below illustrates the prices of grains in Poland during the recent years:



pszenica – wheat / żyto – rye / kukurydza – corn /jęczmień – barley

As for Stoczek Sp. z o.o., in the 2010 season, the prices of vegetables and fruit used for production increased by as much as a few dozen or even over one hundred per cent. Another group of raw materials whose price is difficult to predict is meat. In 2010 the situation was relatively stable with a tendency for a decrease, yet in this case there are no possibilities for obtaining guaranteed purchase prices. Meat, vegetables and fruit constitute a vast majority of needs related to raw materials.

Prices of fruit, which had started increasing in 2010, continued to grow in 2011. During the season, prices of soft fruit were higher in comparison with 2010, depending on the type of fruit, by a few dozen to over 100%. Prices of vegetables during the 2011 season were similar to those in 2010. In the case of selected assortments the prices were in a low range – there was a significant adjustment of prices (due to good crops) for such vegetables as white cabbage.

In the 2nd half of 2011 there was a significant increase in the prices of meat. In the 1st half of the previous year the prices of meat did not change significantly. However, due to the expansion of customers in Asian markets, decrease in livestock and significant growth in FX rates in the second half of the year there was over 100% increase in prices of selected assortments.

Risk of changing market trends

The risk involves mostly a possibility of a decrease in the volume of pasta markets, e.g. in favour of other products which may substitute pasta, such as grains, potatoes, rice, etc. This is possible mainly if there is an unfavourable change in price relations between pastas and other starch products – substitutes. This trend is strengthened by fluctuations in the market of such raw materials as cereals and eggs.

There is stagnation in the dynamics of growth in pasta sales, with only very small quantitative increase in the market at the level of 0.85% per year, with a simultaneous increase of +4.85% in its value (Nielsen data – annual rolling calculation MAT AS2011 vs MAT AS2010).

Another market in which adverse trends are noted is the market of ready-made meals packed in jars. The market of vegetable and meat meals in jars has decreased from year to year by 2.9% quantitatively and by 3% in terms of its value (source: Nielsen data – annual rolling calculation MAT AS2011 vs MAT AS2010).

Even though it is estimated that the broadly understood "market of ready-made meals" meets the requirements of the current consumer trends and life-styles, some experts believe that the segment of traditional ready-made meals in jars will not grow as rapidly as other segments, such as: chilled and frozen ready-made meals, or frozen vegetable and meat mixes. This results mainly from the limited innovative potential in this area, conservative attitude of consumers to products on offer (particularly with regard to packaging) and the price pressure.

Risk connected with fluctuations in currency exchange rates

In 2011 the exchange rate of Polish zloty with respect to Euro was in the range 3.8-4.6 EUR/PLN. The depreciation of PLN for importers, such as the Company (import of raw material, i.e. flour based on durum wheat) in a long-term perspective may impact adversely the level of profitability of their business. In the 1st quarter of 2012 the trend of PLN appreciation in relation to Euro and USD can be seen. This tendency allows the Company to achieve better profitability on contracts connected with the production of pasta made of durum wheat flour.

Export sales of the Company's products are based on short-term contracts, therefore the sales price is determined separately each time and it takes into account the current FX rates allowing for satisfactory profitability of the sales. Moreover, within the scope of activity in the Group's companies we observe "natural heading", as the foreign currencies obtained from export sales are generally in their entirety used for purchasing raw materials abroad.

Risk of becoming dependent on suppliers

Makarony Polskie Group cooperates with the most significant suppliers of raw materials and packaging which warrant stability of partnership and the quality of their products, as well as advantageous commercial terms and conditions. Supply policy is based on the rule of qualifying suppliers by means of tenders and the principle of secure supplier diversity.

Risk of becoming dependent on clients

The main clients of the Group's products are large retail chains. A potential lack of continuity in the cooperation with retail chains may impact the level of revenues. Additionally, some retail contracts, particularly those with retail chains, do not specify the exact volume of orders which will be placed by the clients. Due to this there is a risk that clients may place orders which differ considerably from the previously accepted and that may result in a failure to satisfy the demand or in overproduction. According to the Group's estimates this risk is not significant as the volumes of products supplied previously did not fluctuate significantly and remained within the predictable limits.

Risk related to introducing new products to the market

One of the strategic goals of Makarony Polskie Group involves expanding the product range within the market segments in which the Company is currently active, as well as entering new attractive segments of food market. Launching a new product is always preceded with adequate market analyses and trial batches which aim at minimizing the risk of the product's failure to be accepted by the market. Yet, there is a possibility that, in spite of the applied procedures, the Group will incur considerable costs related to introducing new products to the market, which will then fail to succeed due to erroneous assessment of

either the market potential or consumers' preferences, or due to operations of the competition. As a result this may adversely impact the financial outcome of the Group.

Risk related to market competition

Supplies of pasta, ready-made meals and jams in the Polish market are provided by a number of entities, both domestic and foreign. There is a risk that the trading conditions offered by Makarony Polskie Group will turn out to be less competitive, which will cause a decrease in the Group's revenues. Taking into account the current sales structure, the greatest threat of the competition exists within the modern trade channel with regard to the brands of retail chains as well as its production under other companies' brands. Increasing production capacity and the scope of operations by small and medium manufacturers may result in significant threat from such companies for the Group's sales in those segments of the market. Another threat might result from a strong foreign company entering the Polish market and operating within the same business model.

Risk of the changing legal and tax regulations

Adverse impact on the activities of Makarony Polskie Group may result from changes in legal regulations and their various interpretations. A situation when a new regulation, significant for business transactions, comes in force may be connected with interpretation problems, a lack of unanimous opinions of the courts, unfavourable interpretations adopted by organs of public administration, etc.

1.9. SUPPLY SOURCES

Makarony Polskie Capital Group cooperates with major suppliers of raw materials and packaging warranting the stability of partnership and the quality of their products, as well as advantageous commercial terms and conditions. The Group's supply policy is based on the rule of qualifying suppliers by means of tenders and the principle of secure supplier diversity.

Supplies are executed under written or spoken contracts. In the latter case, an order made in writing or in an electronic form constitutes a confirmation of a sales and purchase agreement. Ongoing monitoring of operations by other producers that submit offers related to materials used by the Group aims at retaining purchase prices at the lowest possible level.

In 2011 none of the Group’s suppliers exceeded the level of 10% of consolidated total sales revenues.

I. Makarony Polskie S.A.

The main raw material used for production by Makarony Polskie S.A. is wheat flour. The Company purchases this raw material from several main suppliers, and some smaller producers.
Another very important component of the finished product is the packaging. The Company purchases three groups of packaging: collective, unit and auxiliary packaging.

II. Stoczek Sp. z o.o.

The main raw materials used for production by Stoczek Sp. z o.o. are meat, vegetables, fruit and spices, as well as glass packaging.

2. FINANCIAL SITUATION

2.1. RULES FOR COMPILING A CONSOLIDATED FINANCIAL STATEMENT

The consolidated financial statement was compiled in accordance with the International Financial Reporting Standards (IFRS) approved by the European Union (EU) and in compliance with provisions of the Ordinance of the Minister of Finance of 19 February 2009 on current and periodic information published by issuers of securities (Polish Journal of Laws 2009 No. 33 item 259).

This consolidated financial statement was compiled in accordance with a rule of historical cost accounting with the exception of fair value accounting in the case of selected assets, that is the assets acquired under the purchase transaction executed with Gardenau Company, assets acquired under the purchase transaction of Stoczek Company, including the value of the company resulting from these transactions, assets acquired under the purchase transaction of Abak Sp. z o.o. as well as land designated for investments.

The Parent Company - Makarony Polskie S.A., as well as the Subsidiary Company - Stoczek Sp. z o.o. prepare the financial statements in accordance with IFRS.
The financial statements of the entities constituting the capital group were compiled in Polish zloty (PLN) and all the values presented in this financial statement, if not specified otherwise, are given in thousands of PLN.
Time of operation of the specific companies included in the Group is unlimited.

The Consolidated Financial Statement of Makarony Polskie Group was compiled with the assumption of continued business operation by the companies of the Group in the foreseeable future and without significant reduction of its scope. The Group did not conduct any operations which were discontinued during 2011

Financial statements of all companies were compiled for the same reporting period, by applying consistent principles of accounting. Fiscal year of the Group's companies is the calendar year.

Chosen financial data in EURO were presented in accordance with §91 section 2 of the Ordinance of the Minister of Finance of 19 February 2009:

- ✓ items of the statement on the financial standing were converted according to average exchange rate published by NBP binding on the balance sheet date (31 December 2011 1 EUR = 4.4168, 31 December 2010 1 EUR = 3.9603 PLN),
- ✓ items in the statement of comprehensive income and the statement of cash flows were converted according to the exchange rate being the arithmetic mean of average exchange rates set forth by NBP, and binding on the last day of each month of 2011 = 4.1401 and on the last day of each month of 2010 = 4.0044 PLN.

2.2. LIST OF ITEMS INCLUDED IN THE CONSOLIDATED FINANCIAL STATEMENT FOR THE FISCAL YEAR 2011

Company	Registered Office	Type of relation 31.12.2011	Consolidation method	Date of taking over the control / wielding significant influence	% of owned capital for 31.12.2011
Stoczek Sp. z o.o.	Stoczek Łukowski	direct subsidiary	full	01-06-2007	100%

Stoczek Sp. z o.o. was the subsidiary company in 2011. The entity is controlled by Makarony Polskie S.A. The control appears in a situation when Makarony Polskie S.A. has direct or indirect capability to manage financial and operational policy of the business entity in order to achieve economic benefits from its activity. To account for the purchase of subsidiary entities a method of purchase is employed. Subsidiary entities are subject to consolidation within the period commencing from the date of taking control over them by the Group and cease to be subject to consolidation at the date of control termination.
Mutual settlements, transactions and unrealized profits or losses (under the condition that they are not the result of value loss) are subject to elimination. Corrections concerning capital included in the consolidated financial statement are subject to elimination of particular elements of equity capital of subsidiary company in order to illustrate the share of the company Makarony Polskie S.A. in losses from

the previous years, results of current year and setting the costs of amalgamation and the value of the company.

While compiling consolidated financial statement of the Corporate Group for the year 2011 a method of full consolidation was employed. Financial statements of the parent Company Makarony Polskie S.A. and of the subsidiary Company Stoczek Sp. z o.o. are included by full consolidation.

2.3. THE CHARACTERISTICS OF BASIC ECONOMIC AND FINANCIAL VALUES OF MAKARONY POLSKIE GROUP

Selected financial data of Makarony Polskie Capital Group for 31 December 2011 given in thousands of PLN present in the following way:

Makarony Polskie Group	**2011**	**2010**	**% change**
Revenue from sales of products, services, goods and materials	210 671	149 969	40%
Revenue from sales of products, services, goods and materials (excl. sale of barley)	160 270	136 810	17%
Costs of products, services, goods and materials which were sold	187 217	122 212	53%
Gross profit on sales	23 454	27 757	-16%
Costs of sales	21 738	20 366	7%
Management costs	6 071	6 619	-9%
Depreciation	6 551	5 531	18%
EBIT	-214	3 010	
EBITDA	6 337	8 541	
Gross profit	-2 692	1 633	
Nett profit	-3 347	2 175	
return to sales excl. barley			
EBIT margin	-0,13%	2,20%	
EBITDA margin	3,95%	6,24%	
Return on sales*	14,63%	20,29%	
Net return	-2,09%	1,59%	
return to total sales			
EBIT margin	-0,10%	2,01%	
EBITDA margin	3,01%	5,70%	
Return on sales *	11,13%	18,51%	
Net return	-1,59%	1,45%	

* Gross profit on sales / Revenue from sales of products, services, goods and materials

The financial data of Makarony Polskie Group presented in the table above include consolidated financial statements of Makarony Polskie and Stoczek Sp. z o.o.

Following the standards and requirements of the International Accounting Standards in accordance with which financial statements of the Group are compiled and presented, the consolidation of Stoczek company data includes the period from January 1 to December 31, 2011.

2.4. PRESENTATION OF THE CONSOLIDATED FINANCIAL STATEMENT ON COMPREHENSIVE INCOME

FOR THE PERIOD	01.01.2011-31.12.2011	01.01.2010-31.12.2010 converted
Net sales revenue	**210 671**	**149 969**
Net revenue from sales of products, services,	127 361	119 787
Net revenue from sales of goods and materials	83 310	30 182
First costs	**187 217**	**122 212**
Cost of manufacturing products and services sold	117 293	92 682
Value of goods and materials sold	69 924	29 530
Gross profit (loss) on sales	**23 454**	**27 757**
Costs of sales	21 738	20 366
Management and administration costs	6 071	6 619
Other revenue	5 702	3 587
Other costs	1 561	1 349
Profit (loss) on continuing operations	**- 214**	**3 010**
Financial income	452	474
Financial costs	2 930	1 851
Gross profit	**- 2 692**	**1 633**
Corporate income tax – current part	54	13
Corporate income tax – deferred part	601	- 555
Nett (loss) on continuing operations	**- 3 347**	**2 175**

In 2011 the Group obtained revenues of 210.7 million PLN which was 60.7 million PLN higher than in 2010 what gives 40% increase. Simultaneously, the costs of sales of products, services, goods and materials in 2011 reached 187.2 million PLN and their level was higher by 65 million PLN compared to the previous year which means that they increased by 53%. The more rapid growth of costs in comparison with the previous year resulted mainly from the increase in the costs of raw materials noted in 2011. In spite of the policies used by the Group for securing prices of raw materials, which significantly limited the adverse effects of those dynamic changes, it was impossible to eliminate that risk altogether.

Such dynamic increase in sales revenue could not remain without effect with regard to the sales costs. These increased in 2011 to 21.7 million PLN and were 1.3 million PLN higher in comparison to 2010, which is 7%. This growth resulted mainly from the following:

- ✓ increase in expenditure related to expanding the possibility of sales through distribution channels (e.g. the so-called "admission" fees), which is a one-time cost;
- ✓ increase in expenditure aimed at the development of sales teams which was related to the purchased Tenczynek brand assets and the new product assortments introduced to the Group's portfolio (mainly in the traditional distribution channel).

During the 4th quarter of 2011 the Group started a process of restructuring which will lead to an improvement in profitability. Resulting from an introduced savings plan the administrative costs at the end of 2011 amounted to 6.1 million PLN, i.e. 0.6 million PLN (8%) less than in 2010. The reduction in these costs achieved in 2011 is an evidence of positive effects obtained as a result of consistently implemented strategy of reducing structural costs (administration, accountancy, logistics, etc.) which involves centralization of functions to ensure the synergy effect.

At the end of 2011 the Group noted loss in continued operations amounting to 0.2 million PLN, as compared to the profit of 3.0 million PLN in 2010.
By analogy, the net loss on continued operations in 2011 amounted to 3.3 million PLN, in comparison with the profit in 2010 totalling at 2.2 million PLN.

2.5. STRUCTURE OF ASSETS AND LIABILITIES OF THE CONSOLIDATED FINANCIAL STATEMENT ON THE FINANCIAL SITUATION

ASSETS	31 December 2011	31 December 2010 converted	1 January 2010 concerted
NON-CURRENT ASSETS	**95 359**	**90 620**	**86 917**
Property, plant & equipment	78 275	77 912	75 105
Investment properties	318	318	298
Goodwill	9 492	5 946	5 946
Other intangible assets	5 946	4 990	5 007
Other long-term assets	76	76	374
Deferred tax assets	1 172	1 186	105
Other long-term assets	80	192	380
CURRENT ASSETS	**46 798**	**41 586**	**29 884**
Inventories	13 937	11 287	8 636
Short-term receivables	29 457	28 880	19 176
Corporate income tax receivables	1 810	417	15
Loans granted	160	101	-
Cash and cash equivalents	979	363	938

Other short-term assets	455	538	1 119
NON-CURRENT ASSETS HELD FOR SALE	-	**-**	**1 162**
TOTAL ASSETS	**142 157**	**132 206**	**117 963**

EQUITY AND LIABILITIES	**31 December 2011**	**31 December 2010 converted**	**1 January 2010 converted**
EQUITY	**59 407**	**62 689**	**60 411**
Share capital	27 750	27 750	27 750
Other capital	34 119	33 839	31 537
Retained profit/loss (profit/loss from previous periods)	885	- 1 075	- 243
Net profit	- 3 347	2 175	1 367
NON-CURRENT LIABILITIES	**31 127**	**30 125**	**31 838**
Deferred tax provision	1 816	1 230	705
Long-term bank loans and borrowings	18 378	16 630	19 570
Provision for pension and similar (long-term) benefits	290	257	184
Deferred income	9 612	10 372	11 039
Non-current liabilities from finance lease agreements	1 031	1 636	340
CURRENT LIABILITIES	**51 623**	**39 392**	**25 714**
Short-term bank loans and borrowings	12 827	9 320	2 639
Current financial liabilities	5 376	2 597	3 788
Other current liabilities	32 265	26 521	18 434
Deferred income	709	725	725
Provision for pension and similar (short-term) benefits	143	132	71
Other short-term provisions	303	97	57
TOTAL LIABILITIES	**82 750**	**69 517**	**57 552**
TOTAL EQUITY AND LIABILITIES	**142 157**	**132 206**	**117 963**

In comparison to 2010 the balance sheet total increased by 8% in 2011. The basic components of assets are tangible fixed assets of 78 million PLN value, the same level as the previous year.

The Group's current assets increased by 13% in comparison with 2010 and totalled at 46.8 million PLN (increase of 5.2 million PLN).

The Group's equity as of the end of 2011 amounted to 59 million PLN, i.e. it decreased by 5% in comparison with 2010.

A significant item of long-term liabilities are the bank loans and credits amounting to 18.4 million PLN; their value increased by 1.7 million PLN, i.e. 11% in comparison with 2010.

2.6. ASSESSMENT OF FINANCIAL RESOURCES MANAGEMENT IN MAKARONY POLSKIE GROUP

Assessment of financial resources management in Makarony Polskie Capital Group, which is presented below, was based on the separate and consolidated financial statements for 2010-2011. Additionally, the table includes selected ratios of economic effectiveness achieved by Makarony Polskie S.A. and the Capital Group.

The table below shows the specific return indexes achieved by Makarony Polskie S.A. and the Capital Group in the analyzed period (data in thousand PLN):

Specification	Makarony Polskie S.A.		Capital Group	
	2010	2011	2010	2011
Net sales revenues	124 990	148 385	149 969	210 671
Return on sales	17,2%	11,3%	18,5%	11,1%
Operating profit margin	0,3%	-5,4%	2,0%	-0,1%
Economic profit margin	-0,4%	-4,4%	1,1%	-1,3%
Net profit margin	-0,6%	-4,5%	1,5%	-1,6%
Return on assets (ROA)	-0,6%	-5,4%	1,6%	-2,4%
Return on equity (ROE)	-1,2%	-12,6%	3,5%	-5,6%

The above list of data shows that during the whole period included in this analysis, sales revenues achieved by Makarony Polskie S.A. had prevailing impact on the overall trade results of the Group.
In comparison with the previous year return on sales of the Company decreased by 6% and for the whole Group by 7%. From the beginning of 2011 the Group's results are affected by the high prices of raw materials which adversely impacted the profitability. The growing prices for food products resulted in a decreased demand for more expensive goods – i.e. brand products, and growing demand for more affordable goods in the private label segment. This situation adversely impacts the Group's profitability because margins generated on private label products are significantly lower than the margins achieved on brand products.
The negative return on assets and on equity results from the loss for the end of 2011.

The superior principle of financing in 2011 involved the assumption that engaging in products whose risk was assumed by a given financing institution must include simultaneously all the entities in the Group. Following the above assumptions, the Company took action aiming at sorting the sources of financing in

order to achieve better effectiveness of their use, as well as to reduce the costs of their acquisition. The entities of the Group used a wide range of financial instruments:

- bank credits – short-term and medium-term, as well as investment loans,
- transfer of receivables (factoring),
- fixed assets leasing.

Due to the portfolio of the conducted business activity the entities of the Group did not have to use derivative instruments (such as options, futures transactions, CIRS etc.).

The structure of financing sources was adjusted to the need for flexibility so that in the periods when financial surplus occurred, the level of indebtedness (credits in current account, transfer of receivables balance) was reduced, while in the periods of greater demand for financial means, a stable level of financing for current activity was available. The objective of such a solution is to optimize the financial costs. Financing investments was based on investment credits (the purchase of pasta production line, purchase of fixed assets for manufacturing Tenczynek brand products) and operational leasing (the purchase of means of transport). The increase in interest-bearing indebtedness in the recent years was mainly connected with the investment at the Rzeszów Production Plant.

The table below presents the ratios for liquidity and management effectiveness.

	MAKARONY POLSKIE S.A.		CAPITAL GROUP	
	2010	2011	2010	2011
Liquidity				
- current ratio	1,06	0,90	1,08	0,91
- quick ratio	0,79	0,72	0,79	0,64
Daily rotations				
- inventories	6	10	14	24
- receivables	17	36	29	44
- liabilities	15	38	29	51

The longer rotation cycle for inventories results from the increased number of indexes in the Group's portfolio, and particularly from new items, whose production is seasonal. These are pickled vegetables and other vegetable preserves on offer under Tenczynek brand.

The longer collection period for receivables and the extended period of fulfilling liabilities reflect the tendencies occurring in food industry. Lack of stability in the market of raw materials significantly reduced the profitability of products. In 2011 there were no favourable conditions for entering into long-term contracts therefore long-term planning of business operations was hindered.

In 2011 the companies of the Group promptly made scheduled repayments of interest-bearing liabilities and in this area there were no risks.

2.7. OFF-BALANCE SHEET ENTRIES OF MAKARONY POLSKIE GROUP

A change in the state of contingent liabilities or contingent assets, that occurred after the end of the previous financial year:

Off-balance sheet items	31 December 2011	31 December 2010
1. Contingent assets	**58 604**	**32 147**
- received guarantees and warranties	58 599	28 942
- collaterals on property	0	3 200
- promissory notes	5	5
2. Contingent liabilities	**196 245**	**159 338**
- extended guarantees and warranties	42 603	13 597
- collaterals on property	76 295	90 582
- notes payable	77 347	55 159
Total off-balance sheet items	**- 137 641**	**- 127 191**

The value of received guarantees, securities, bills of exchange liabilities, mortgages and other off-balance sheet liabilities in the chart above have been presented in maximum values without consolidation exclusions between the subsidiary companies.

2.8. USE OF PROCEEDS FROM ISSUANCE OF SECURITIES

Within the period from 1 January 2011 until the date of disclosing this report the Company did not issue any securities and does not plan to do so before the end of the year 2012.

2.9. EXPLANATION OF THE DIFFERENCES BETWEEN ACHIEVED AND PREDICTED FINANCIAL RESULTS OF MAKARONY POLSKIE GROUP

In March 2011 the Company published its financial projection for 2011 which was prepared taking into account available reports related to the development of the pasta market and ready-made meals market, as well as estimates of trends occurring in the market of raw materials and analysis of macro-economic situation. The projections were as follows:

- Total sales revenues: 216 550 thousand PLN,
- Gross profit on sales: 36 500 thousand PLN,
- EBITDA: 14 240 thousand PLN,
- EBIT: 9 420 thousand PLN,
- Net profit: 6 480 thousand PLN.

At the beginning of October 2011 in connection with negative external factors, being outside the Group's control, such as the global economic crisis and massive increases in the prices of raw materials, initiated in 2010 and continuing in 2011 as well as the general deterioration of profitability of entities operating within food industry, which could be seen from the beginning of 2011, Makarony Polskie S.A. decided to cancel the formerly published financial forecast.

Management Board of Makarony Polskie S.A. informed that the Group expected to achieve the sales revenues assumed in the forecast, i.e. at the level of approx. 216 million PLN (the actual figure amounted to 211 million PLN), yet it will not be able to achieve the projected level of profitability meeting the assumptions of the 2011 forecast. At the same time the Management Board expressed its opinion that in the context of the unstable market situation noted in 2011 it was impossible to reliably and precisely determine financial results of Makarony Polskie Group for 2011 or provide reliable adjustments of the previously published financial forecast. Due to this the Management Board of Makarony Polskie S.A. took a decision it would not publish a new forecast for 2011.

From 9 July 2009, under the frame of development of clear communication policy ensuring effective access to information essential for assessment of the Company's standing and perspectives and its way of operating in accordance with rules I.1 and I.2 of the set of rules "Good Practices of WSE listed Companies", and pursuant to §5 clause 1 item 25 and §31 of the Ordinance of the Minister of Finance of 19 February 2009 on current and periodic information published by issuers of securities, Makarony Polskie S.A started to inform the public about selected estimated data regarding sales effected by Makarony Polskie Group in consecutive months of the specific fiscal year.

The information is published periodically, immediately after all the data for subsequent months is collected, as a rule by the 10th day of each month following the month included in the report. Furthermore, in order to provide data comparability the reports include sales data for analogous previous financial year periods.

2.10. ASSESSMENT OF FACTORS AND EXTRAORDINARY EVENTS INFLUENCING THE RESULTS OF ECONOMIC ACTIVITY IN 2011, INCLUDING THE DEGREE OF INFLUENCE OF SUCH FACTORS OR EXTRAORDINARY EVENTS ON THE RESULT ACHIEVED

In 2011 Makarony Polskie Capital Group generated a loss of -3,347 thousand PLN.

The financial results of Makarony Polskie Group in 2011 were significantly influenced by the following:

- ✓ Radical massive increases in the prices of basic raw materials such as flour, whole egg pulp, and fruit.

  Radical increases in the prices of raw materials, which occurred from mid-2010 and throughout 2011, resulted in the necessity to repeatedly adjust the prices of products to the growing costs of manufacturing them.

  Due to the fact that margins used in food processing industry are low, it is very important to balance the prices of raw materials and prices of products in order to achieve assumed financial results. Notwithstanding the applied guarantees, there is a temporal shift in adjusting the prices of products in relation to the changes in the prices of materials. If prices of materials fall the shift is beneficial for the Group (in spite of the lower prices of materials the higher prices of products are retained), on the other hand an increase in the prices of materials has adverse effect.

  The applied policy for securing the prices of raw materials via the system of contracting flour and meat and by purchasing seasonal vegetables and fruit for the needs of the whole year allowed for reducing the loss, yet they did not make it possible to completely eliminate those. The adverse impact of these factors in 2011 amounted to 5.7 million PLN. In this situation year 2011 ended with a negative financial result.
- ✓ Disproportionally large increase in expenditure related to the development of the organizational structure in comparison with the executed revenues.

  The organizational structure introduced in 2010 was designed to support the implementation of the Group's development strategy for 2010 – 2012. The strategy assumed an increase in the Group's revenues from 117 million PLN in 2009 to the minimum of 300 million PLN in 2012, a growth in net profitability from 2% in 2009 to 4% in 2012 as well as an increase in EBITDA profitability rate from

8% in 2009 to 12% in 2012. The strategic goals were to be achieved through organic growth at the minimum rate of 20% annually additionally supported with acquisitions, a growth in sales of the existing assortment of goods, expansion to new segments of market, as well as emphasis on the development of the Group's brand products. Negative external factors, such as the global economic crisis and massive increases in the prices of raw materials initiated in 2010 and continuing in 2011 resulted in a radical decrease of the Group's profitability, due to which Makarony Polskie S.A. was forced to review its long-time intentions and plans and to focus on medium-term perspectives; this resulted in efforts aimed at reducing costs allowing to cope with the period of difficult economic situation. Because it was impossible to provide financing for organic growth and acquisitions it became necessary to reduce development plans and adjust the organization to the scale of operation that was smaller than it was earlier expected.

- ✓ <u>One-time expenditure related to the transaction of purchasing Tenczynek brand and equipment for manufacturing Tenczynek products.</u>

  Makarony Polskie Group executed the aforementioned transaction as a part of its long-term development strategy aimed at increasing executed sales revenues. It is estimated that revenues on sales of Tenczynek brand products will amount to 10 million PLN in 2012 and 15 million PLN in 2013. The Group's revenues for the sale of Tenczynek brand products in 2011 totalled at only 3.54 million PLN, and the Group incurred additional costs of approx. 1 million PLN connected with starting the production and developing distribution.
- ✓ <u>Growth in pasta and ready-made meals markets in Poland in 2011 – less dynamic than expected.</u>

  There is notable stagnation in the dynamics of growth in pasta sales in Poland, with only very small quantitative increase in the market at the level of 0.85% per year, with a simultaneous increase of +4.85% in its value (Nielsen data – annual rolling calculation MAT AS2011 vs. MAT AS2010).

  Another market in which adverse trends are noted is the market of ready-made meals packed in jars. The market of vegetable and meat meals in jars has decreased from year to year by 2.9% quantitatively and by 3% in terms of its value (source: Nielsen data – annual rolling calculation MAT AS2011 vs. MAT AS2010).
- ✓ <u>Establishing provisions and revaluation write-offs for assets of the Group's companies.</u>

  The relevant amount shown in the item "other costs" in the statement of comprehensive income of Makarony Polskie Group for 2011 amounted to 553 thousand PLN.

3. SIGNIFICANT CONTRACTS CONCLUDED BY THE GROUP

During 2011 Makarony Polskie Group was party to the following significant contracts.

3.1. RETAIL CONTRACTS

1. Contract with Jeronimo Martins Dystrybucja Polska S.A

   Under the contract signed between Makarony Polskie S.A. and Jeronimo Martins Dystrybucja the Company sells Dobrusia, Pastani, Szlachecki and Vitalia pastas to Biedronka retail chain. The value of revenues under this contract in 2011 amounted to 33.5 million PLN accounting for 16% of the consolidated sales revenues.

2. Contracts with Kaufland Group

   In 2011 the Company stipulated new terms and conditions of cooperation with the Kaufland chain (Kaufland Polskie Markety Sp. z o.o.. k., Kaufland Česká Republika, and Kaufland Slovenská Republika) with regard to the supply of pastas under NOE brand owned by Kaufland chain. The previously binding list of products was expanded to include additional items. The contract set forth steady prices which will remain valid within the period of minimum 12 months starting from 1 December 2011. The terms and conditions of the Contract do not differ materially from those commonly used in this type of contracts.

   Under all valid contracts, Makarony Polskie Group supplies Kaufland chain with pasta under Sorenti and Abak trademarks, and under Kaufland Co. own trademark, as well as ready-made dishes under Stoczek and Kaufland chain trademarks.

   The total value of the trade under all contracts in force between companies of Makarony Polskie Group and entities affiliated with Kaufland Group in 2011 amounted to 16.6 million PLN.

3. Contracts with the Agricultural Market Agency

   The cooperation with Agricultural Market Agency in 2011 was connected with the execution of contracts under the "Food aid programme for the European Union poorest people, 2011". The total value of contracts between Makarony Polskie Group and ARR in 2011 amounted to approx. 26.7 million PLN and involved two contracts executed up to 31 December 2011:

   - contract for the supply of pasta,
   - contract for the supply of ready-made meals in the form of barley kasha with goulash and pasta with goulash,

The remuneration for the delivery of food products under the contract was in the form of barley grains held in intervention storage. The security for both contracts had the form of performance bonds amounting to 150% of the contract price.

4. Contracts between Stoczek Sp. z o.o. and TDM Arrtrans

   In February 2011 Stoczek sp. z o.o. concluded a significant contract with Towarowy Dom Maklerski Arrtrans S.A. with a seat in Łódź; The subject of the contract is the delivery of krupnik (barley soup) of the total net value 10.8 million PLN. The contract shall be executed in the period from March to December 2011. The terms and conditions of the contract do not differ materially from those commonly used in this type of agreements. The total estimated value of all currently effective contracts between Stoczek Sp. z o.o. and TDM Arrtrans amounts to 12.6 million PLN.

3.2. OTHER SIGNIFICANT EVENTS

1. Interest-bearing liabilities of Makarony Polskie Group
   - ✓ In August 2011 Makarony Polskie S.A. and Stoczek Sp. z o.o. signed annexes to the agreements with BNP Paribas Bank Polska S.A. on credit in the current accounts changing the credit repayment date from 28 June 2012 to 1 July 2013. The nominal value of the credit granted to Makarony Polskie S.A. amounts to 4.1 million PLN, and to Stoczek Sp. z o.o. – 2.0 million PLN.
   - ✓ In October 2011 Stoczek concluded two credit agreements with BGŻ S.A. – agreement for revolving credit amounting to 2.0 million PLN and for investment credit of 2.5 million PLN.
   - ✓ In November 2011 Stoczek Sp. z o.o. signed an annex to the agreement of credit in current account in HSBC Bank Polska S.A. The annex increased the available credit limit from 2.0 million PLN to 3.0 million PLN.
   - ✓ In November 2011 Makarony Polskie S.A. signed an annex to the agreement related to credit in the current account changing the repayment due date from 29 Dec. 2011 to 16 Dec. 2012, as well as an annex to the agreement dated 3 Dec. 2010 related to the revolving credit prolonging the repayment due date from 29 Dec. 2011 to 1 Dec. 2012.
   - ✓ In December 2011 Makarony Polskie S.A. and BGŻ S.A. signed an agreement of working capital loan with a limit of 2.5 million PLN and the repayment due date on 29 Dec. 2012.
2. Factoring contract with ING Commercial Finance Polska S.A.

   In December 2011 Makarony Polskie S.A. and ING Commercial Finance Polska S.A. concluded annex No. 1 to the Factoring agreement dated 21 Dec. 2009. The annex increased the factoring limit from the previous level of 3.5 million PLN to 7.0 million PLN.

The contract was concluded for indeterminate period of time. The provisions of the contract do not differ from standard terms and conditions applied by the Factor for this type of contracts. The Factor is entitled to remuneration calculated as the per cent value of acquired liabilities in a given month. The collateral for the above factoring contract consists of two blank promissory notes issued by the Company with blank promissory note agreement.

3. Agreement with Mispol S.A. on resigning from the merger of the companies

   On 11 May 2011 the Companies concluded an agreement in which they declared unanimously that they were terminating activities aimed at the merger of the companies and neither party holds any claims against the other party related to the manner of executing the provisions of the original agreement signed in December 2010.

4. Contracts concerning the sales of barley obtained by the companies of the Group as remuneration for the deliveries of pasta for charitable organizations under the contracts concluded with the Agricultural Market Agency

   - ✓ Contract with Alfred C. Toepfer International (Poland)

     On 17 February 2011 Makarony Polskie S.A. concluded a contract with Alfred C. Toepfer International (Poland) concerning the sale of barley grains at the total net value of 15.8 million PLN. The contract was executed by the day of 31 Aug. 2011. The terms and conditions of the contract did not differ materially from those commonly used in this type of agreements.
   - ✓ Contract with Glencore Polska Sp. z o.o.

     On 14 April 2011 Makarony Polskie S.A. concluded a contract with Glencore Polska Sp. z o.o. concerning the sale of barley grains at the total net value of 5.1 million PLN. The contract was executed by the day of 30 June 2011. The terms and conditions of the contract did not differ materially from those commonly used in this type of agreements.

5. Acquisition of Tenczynek

   On 25 Feb. 2011 Makarony Polskie S.A. executed a contract with Gardenau Sp. z o.o. regarding the purchase of the Organized Part of the Enterprise "Tenczynek". On 5 March 2012 the companies concluded an annex to the aforementioned Contract which included supplementary definition of the object of the transaction thereby endorsing the established economic situation. In accordance with the annex the object of the transaction consisted of separate assets including:

   - machines and equipment,
   - protective rights for trademarks, and rights for industrial designs,
   - finished products,
   - recipes,

and not "enterprise" in the understanding of Art. 551 of the Civil Code, or "organized part of enterprise" in the understanding of Art. 4a, point 4 of the Legal Persons' Income Tax Act and Art. 2, point 27e of the Act on Value Added Tax.

The value of the transaction totalled at net 3.1 million PLN. Gardenau Sp. z o.o. was conditionally entitled to an additional amount of 1 million PLN provided that the sales of Tenczynek brand products executed by the end of 2011 would have not been lower than 9.3 million PLN. Due to the fact that the aforementioned condition related to the volume of sales was not met, Gardenau Sp. z o.o. is not entitled to the additional remuneration of 1 million PLN.

Because following the transaction Makarony Polskie S.A. intended to continue production in Stoczek Sp. z o.o., (the production plant in Stoczek Łukowski), both companies signed a contract of lease for the equipment designed for the production of Tenczynek brand goods, which was binding in the period from April until June 2011.

On 29 June 2011 Makarony Polskie S.A. sold selected assets used for the production and distribution of fruit and vegetable preserves under Tenczynek brand (fixed, intangible and legal assets) to its subsidiary - Stoczek sp. z o.o. The net value of the transaction was 2.96 million PLN. Makarony Polskie S.A. was conditionally entitled to an additional amount of 1 million PLN provided that the sales of Tenczynek brand products executed by the end of 2011 would not be lower than 9.3 million PLN. Due to the fact that the aforementioned condition related to the volume of sales was not met, Makarony Polskie S.A. is not entitled to the additional remuneration of 1 million PLN.

3.3. SIGNIFICANT CONTRACTS SIGNED BY SHAREHOLDERS

The Management Board of Makarony Polskie S.A. does not have information about any significant contracts signed between the Company's shareholders.

3.4. INSURANCE AGREEMENTS CONCLUDED FOR THE COMPANIES OF MAKARONY POLSKIE GROUP

Insurance agreements entered by the Companies of the Capital Group and in force on 31 December 2011 are presented in the tables below.

I. Makarony Polskie S.A.

Insurance Company	Insurance period	Overall Insurance Amount /thousand PLN/	Type of Insurance
Sopockie Towarzystwo Ubezpieczeń STU Ergo Hestia S.A. Rzeszów	01.11.2011 - 31.10.2012	72 795	Complex insurance of the enterprise against all risks
		312	Insurance of electronic equipment
		30	Insurance of machines and equipment against electrical damage
		1 000	Public liability insurance related to the conducted business activity or to property use (including product liability insurance)

In the period after the end of the fiscal year of 2011 Makarony Polskie S.A. took out additional insurance for current assets amounting to 1.575 thousand PLN.

II. Stoczek Sp. z o.o.

Insurance Company	Insurance period	Overall Insurance Amount /thousand PLN/	Type of Insurance
Sopockie Towarzystwo Ubezpieczeń STU Ergo Hestia S.A. Rzeszów	01.11.2011 - 31.10.2012	46 995	Complex insurance of the enterprise against all risks
		75	Insurance of electronic equipment
		30	Insurance of machines and equipment against electrical damage
		500	Public liability insurance related to the conducted business activity or to property use (including product liability insurance)

3.5. CONTRACTS OF PARTNERSHIP AND COOPERATION IN FORCE DURING 2011

- Agreements on joint distribution of products manufactured by the companies of Makarony Polskie Group

  Resulting from the transaction of acquisition of 100% shares in Stoczek Sp. z o.o. by Makarony Polskie S.A., and aiming at the improvement of sales effectiveness for products of Makarony Polskie Group in the territory of Poland, Makarony Polskie S.A. and Stoczek Sp. z o.o. made an agreement that the sales of products of both companies will be conducted by means of the distribution network of Makarony Polskie S.A.

  The remuneration on account of this agreement does not differ from conditions generally applied in the market.

3.6. SIGNIFICANT TRANSACTIONS WITH AFFILIATED ENTITIES

During 2011, Makarony Polskie S.A. did not conclude significant transactions with the subsidiary Company Stoczek Sp. z o.o.

Makarony Polskie S.A. provided distribution and marketing services to Stoczek Sp. z o.o. in accordance with the strategy of reducing structural costs by centralizing certain functions of the Group. The services were supplied pursuant to the contract described in detail in 3.5. herein.

In 2011, Makarony Polskie S.A provided guarantees for the subsidiary company Stoczek Sp. z o.o., which are specified in clause 3.9. herein.

All contracts concluded between the Companies of the Group contain terms and conditions which do not differ from those generally accepted in the market.

3.7. CREDITS AND LOANS TAKEN INCLUDING DUE DATES AND BAIL BONDS AND GUARANTEES GRANTED TO COMPANIES

I. As of 31 December 2011 Makarony Polskie S.A. was a party to the following agreements with financial institutions:

- Working capital loan in current account in BGŻ S.A.

Crediting conditions	
Credit contractual value	4 500 thousand PLN
Crediting period	04.12.2007 – 16.12.2012
Interest rate	WIBOR 1M + bank margin not different from the standards applied by the bank
Credit situation on 31 December 2011	4 189 thousand PLN
Credit repayment schedule	✓ Single payment on the due date of the liability
Credit collateral	✓ mortgage for an amount up to a cap to 6 750 thousand PLN on real estate in Rzeszów included in KW No. RZ1Z/00076860/5 with assignment of rights from insurance policy, ✓ blank promissory note with blank promissory note agreement, ✓ power of attorney to the BGŻ S.A. bank account of the Company

- Revolving credit in BGŻ S.A.

Crediting conditions	
Credit contractual value	3 000 thousand PLN
Crediting period	03.12.2010 – 01.12.2012
Interest rate	WIBOR 1M + bank margin not different from the standards applied by the bank
Credit situation on 31 December 2011	2 982 thousand PLN

Credit repayment schedule	✓ Single payment on the due date of the liability
Credit collateral	✓ registered pledge on processing lines for production of short pasta acquired under an investment, with assignment of rights from insurance policy, ✓ blank promissory note with blank promissory note agreement, ✓ power of attorney to the BGŻ S.A. bank account of the Company

- Long-term investment credit in investment account in BGŻ S.A.

Crediting conditions	
Credit contractual value	1 366 thousand PLN
Crediting period	16.02.2005 – 15.02.2013
Interest rate	WIBOR 3M + bank margin not different from the standards applied by the bank
Credit situation on 31 December 2011	81 thousand PLN
Credit repayment schedule	✓ one quarterly instalment of 44 thousand PLN payable on 10 October 2005, ✓ 29 consecutive quarterly instalments of 13 thousand PLN payable on every 10th day of the month following the end of a quarter, ✓ one instalment of 911 thousand PLN payable on 30 June 2006, ✓ one instalment of 14 thousand PLN payable on 15 February 2013.
Credit collateral	✓ registered pledge on machines and equipment i.e. packing machine and wood flooring production machine in Rzeszów, as well as packing machine and flour facility in Płock of total value of 1 439 thousand PLN together with assignment of rights from insurance policy, ✓ power of attorney to current bank accounts of the Company, ✓ assignment of receivables from contract No. SPO-WKP/2.3/2/14/931 concluded on 3 October 2005 with the Polish Agency for Enterprise Development (PARP).

- Long-term investment credit in investment account in BGŻ S.A.

Crediting conditions	
Credit contractual value	15 266 thousand PLN
Crediting period	05.06.2008 – 31.03.2016
Interest rate	WIBOR 3M + bank margin not different from the standards applied by the bank
Credit situation on 31 December 2011	3 605 thousand PLN
Credit repayment schedule	✓ grace period for capital repayment until 30.06.2009, ✓ one instalment of 9 647 thousand PLN payable on 30.06.2009 (from subsidies), ✓ 83 monthly instalments of 67 thousand PLN each payable from 30.06.2009 to 30.04.2016, ✓ levelling instalment of 48 thousand PLN payable on the date of 31.05.2016.
Credit collateral	✓ assignment of rights from Subsidy Contract for the implementation of the Project entitled "Launching production of new quality pastas based on innovative technologies" concluded on 04.06.2008 between the company and the Polish Agency for Enterprise Development (PARP), ✓ registered pledge on processing lines for production of long shapes of pasta acquired under the investment together with

	assignment of rights from insurance policy, ✓ blank promissory note with blank promissory note agreement, ✓ power of attorney to bank account of the Company in BGŻ S.A.

- Working capital loan in BGŻ S.A.

Crediting conditions	
Credit contractual value	2 500 thousand PLN
Crediting period	29.12.2011 – 29.12.2012
Interest rate	WIBOR 1M + bank margin not different from the standards applied by the bank
Credit situation on 31 December 2011	1 575 thousand PLN
Credit repayment schedule	✓ 6 monthly instalments due from 30.04.2012 to 30.09.2012, each of 200 thousand PLN, ✓ 2 instalments on 31.10 and 30.11 each of 400 thousand PLN, ✓ final instalment on 29.12= 500 thousand PLN
Credit collateral	✓ Registered pledge on inventories of goods, materials and finished products (foodstuffs) of net book value = 6 000 thousand PLN, ✓ blank promissory note with blank promissory note agreement, ✓ power of attorney to bank account of the Company in BGŻ S.A.

- Credit in current account in HSBC Bank Polska S.A.

Crediting conditions	
Credit contractual value	3 000 thousand PLN
Crediting period	29.10.2009 – 28.02.2013
Interest rate	WIBOR 1M + bank margin not different from the standards applied by the bank
Credit situation on 31 December 2011	2 983 thousand PLN
Credit repayment schedule	✓ Single payment on the due date of the liability
Credit collateral	✓ Mortgage for an amount up to a cap to 4 500 thousand PLN on real estate in Płock included in KW PL1P/00094893/6 together with assignment of rights from insurance policy, ✓ blank promissory note..

- Credit on current account under multi-purpose line of credit in Fortis Bank S.A.

Crediting conditions	
Credit contractual value	4 100 thousand PLN
Crediting period	29.12.2009 – 01.07.2013
Interest rate	WIBOR 1M + bank margin not different from the standards applied by the bank
Credit situation on 31 December 2011	3 817 thousand PLN
Credit repayment schedule	✓ Single payment on the due date of the liability
Credit collateral	✓ blank promissory note; ✓ registered pledge on production line for short shapes of pasta located at the production plant in Płock together with assignment of rights from insurance Policy, ✓ mortgage for an amount up to a cap to 6 656 thousand PLN on real estates in Częstochowa included in KW Cz1C/00021785/1 along with the assignment of rights from insurance Policy,

	✓ registered pledge on production line for pasta, bought from Anselmo company, and located at the production plant in Płock, ✓ registered pledge on the Pavan production line for short shapes of pasta located at the production plant in Rzeszów.

- Factoring Contract in ING Commercial Finance Polska S.A.

Terms and conditions of the Contract	
Contractual value	7 000 thousand PLN
Period of the Contract	01.01.2010 – 18.12.2012
Interest rate	WIBOR 1M + bank margin not different from the standards applied by the bank
Liability as of 31 December 2011	4 221 thousand PLN
Collateral	✓ money deposit in the amount of 10% of discounted receivables is taken at the moment of receivable discounting and returned after their redemption, ✓ blank promissory note with blank promissory note agreement.

- Guarantees obtained by Makarony Polskie S.A.

Guarantor	Guarantee amount	Guarantee period	Subject secured by guarantee	Security
STU Ergo Hestia S.A.*	15 902 thousand PLN	02.02.2011-30.04.2012	Proper performance of the Contract with Agricultural Market Agency (ARR) under the programme of Common Agricultural Policy "Food aid for the European Union poorest people 2011"	✓ 5 blank promissory notes issued by the Company ✓ registered pledge on the production line for short shapes of pasta in Płock, inventory No. 0003/P and the book value of 1 623 thousand PLN on 31.10.2008 ✓ mortgage for an amount up to a cap to 730 thousand PLN on real estate in Rzeszów included in KW No. RZ1Z/00120491/1
HSBC Bank Polska S.A.**	94 thousand PLN	do 31.01.2012	bank guarantee securing the Company's rent-related liabilities under the rental contract connected with offices in Warszawa	✓ none

* - the guarantee was released in February 2012 after the complete settlement of the secured contract

** - after the balance sheet date, in accordance with an annex which was signed in February 2012 the guarantee period was extended from 31 January 2012 to 28 June 2011

- ✓ In the period from January 2009 to the end of February 2011 Makarony Polskie S.A. benefited from insurance guarantee extended by STU Ergo Hestia S.A and amounting to 775 thousand PLN to secure the Subsidy Contract concluded with the Polish Agency for Enterprise Development under the Operational Programme Human Capital (OP-HC) (advisory and training project, which was concluded in 2011).
- ✓ In the period from February 2010 until February 2011 the Company used a guarantee amounting to 14 571 thousand PLN extended by STU Ergo Hestia S.A. The guarantee was binding from February 2010 and secured proper performance of the Contract with Agricultural Market Agency under the programme of Common Agricultural Policy "Food aid for the European Union poorest people 2010".

The contractual expiry date was 30 April 2011. As a result of the complete settlement of the said contract the guarantee was released in February 2011.

✓ After the balance sheet day, on 10 February 2012 Makarony Polskie S.A. obtained a bank guarantee at BGŻ bank, amounting to 472 thousand PLN and securing one of its long-term trade contracts.

II. As of 31 December 2011 Stoczek Sp. z o.o. was a party to the following agreements with financial institutions:

- Credit in current account in HSBC Bank Polska S.A.

Crediting conditions	
Credit contractual value	3 000 thousand PLN
Crediting period	29.10.2009 – 28.02.2013
Interest rate	WIBOR 1M + bank margin not different from the standards applied by the bank
Liability as of 31 December 2011	2 901 thousand PLN kapitał
Credit repayment schedule	✓ Single payment on the due date of the liability
Credit collateral	✓ blank promissory note with blank promissory note agreement, ✓ mortgage for an amount up to a cap to 4,500 thousand PLN on real estate of the company in Stoczek Łukowski for which KW no LU1U/00022979/2 is conducted, ✓ assignment of rights from insurance policy covering real estate insurance against fire and other accidents and theft amounting to the minimum of 6 000 thousand PLN ✓ guarantee of liabilities for the Borrower by Makarony Polskie S.A. in Rzeszów in the form of corporate indemnity agreement, ✓ Borrower's statement on submission to execution ✓ power of attorney for the Bank to settle the Bank's receivables and claims due for the granted loan towards other accounts opened by the Borrower in the Bank

- Non-revolving credit in HSBC Bank Polska S.A.

Crediting conditions	
Credit contractual value	4 000 thousand PLN
Crediting period	29.10.2009 – 31.01.2013
Interest rate	WIBOR 1M + bank margin not different from the standards applied by the bank
Liability as of 31 December 2011	1 453 thousand PLN
Credit repayment schedule	✓ Equal quarterly instalments payable on the last working day of January, April, July and October starting from 29.01.2010 and finishing on 31.01.2013

Credit collateral	✓ blank promissory note with blank promissory note agreement, ✓ mortgage for an amount up to a cap to 6 000 thousand PLN on real estate of the company in Stoczek Łukowski for which KW no 22979 is conducted, ✓ mortgage for an amount up to a cap to 6 000 thousand PLN on real estate in Płock included in KW PL1P/00094893/6 along with assignment of rights from insurance policy ✓ assignment of rights from insurance policy covering real estate insurance, ✓ bail bond by Makarony Polskie S.A. in Rzeszów in accordance with civil law, ✓ Borrower's statement on submission to execution, ✓ power of attorney for the Bank to settle the Bank's receivables and claims due for the granted loan towards other accounts opened by the Borrower in the Bank

- Multi-purpose line of credit in Fortis Bank S.A.

Crediting conditions	
Credit contractual value	2 000 thousand PLN
Crediting period	29.12.2009 – 01.07.2013
Interest rate	WIBOR 1M + bank margin not different from the standards applied by the bank
Liability as of 31 December 2011	1 894 thousand PLN
Credit repayment schedule	✓ Single payment on the due date of the liability
Credit collateral	✓ blank promissory note with blank promissory note agreement, ✓ mortgage for an amount up to a cap to 3 200 thousand PLN on real estate in Częstochowa included in KW Cz1C/00021785/1 with assignment of rights from insurance policy ✓ registered pledge on production line for pasta bought for Anselmo company located at the production plant in Płock, ✓ registered pledge on production line for short form of pasta production Pavan located at the production plant in Rzeszów ✓ bail bond by Makarony Polskie S.A. in Rzeszów in accordance with civil law, ✓ Borrower's statement on submission to execution, ✓ Guarantor's statement on submission to execution

- Working capital loan in current account in BGŻ Bank S.A.

Crediting conditions	
Credit contractual value	1 200 thousand PLN
Crediting period	10.11.2010 – 12.08.2012
Interest rate	WIBOR 1M + bank margin not different from the standards applied by the bank
Liability as of 31 December 2011	1 167 thousand PLN
Credit repayment schedule	✓ Single payment on the due date of the liability

Credit collateral	✓ blank promissory note with blank promissory note agreement, ✓ registered pledge on fixed assets located at the Production Plant in Stoczek Łukowski, ✓ bail bond by Makarony Polskie S.A. in Rzeszów in accordance with civil law, ✓ power of attorney for the Borrower's accounts in BGŻ Bank

- Revolving credit in BGŻ Bank S.A.

Crediting conditions	
Credit contractual value	2 000 thousand PLN
Crediting period	27.10.2011 – 30.09.2013
Interest rate	WIBOR 1M + bank margin not different from the standards applied by the bank
Liability as of 31 December 2011	2 000 thousand PLN
Credit repayment schedule	✓ Single payment on the due date of the liability
Credit collateral	✓ blank promissory note with blank promissory note agreement, ✓ registered pledge on the inventory of finished products held at the Production Plant in Stoczek Łukowski amounting to 1 100 thousand PLN according to technical cost of manufacturing, ✓ bail bond by Makarony Polskie S.A. in Rzeszów in accordance with civil law, ✓ power of attorney for the Borrower's accounts in BGŻ Bank

- Investment credit in credit account in BGŻ Bank S.A.

Crediting conditions	
Credit contractual value	2 500 thousand PLN
Crediting period	27.10.2011 – 30.9.2014
Interest rate	WIBOR 1M + bank margin not different from the standards applied by the bank
Liability as of 31 December 2011	2 500 thousand PLN
Credit repayment schedule	✓ quarterly instalment at the end of February, May, August and November each year, starting from 28.02.2012, amounts of 208 thousand PLN, ✓ the final levelling instalment due on 30.11.2014.
Credit collateral	✓ blank promissory note with blank promissory note agreement, ✓ registered pledge on fixed assets acquired from Makarony Polskie S.A., amounting to 1,881 thousand PLN and located at the Production Plant in Stoczek Łukowski , ✓ bail bond by Makarony Polskie S.A. in Rzeszów in accordance with civil law, ✓ power of attorney for the Borrower's accounts in BGŻ Bank

- Sureties extended to Stoczek Sp z o.o.

In 2011 Stoczek Sp. z o.o. used sureties obtained from Makarony Polskie S.A. specified in details in clause 3.9.

- Guarantees granted to Stoczek Sp. z o.o.

Guarantor	Guarantee amount	Guarantee period	Subject secured by guarantee	Security
STU Ergo Hestia S.A.*	23 653 thousand PLN	27.01.2011-30.04.2012	Proper performance of the Contract with Agricultural Market Agency (ARR) under the programme of Common Agricultural Policy "Food aid for the European Union poorest people 2011"	✓ a blank promissory note issued by the Company and guaranteed by Makarony Polskie S.A..

* - the guarantee was released in February 2012 after the complete settlement of the secured contract

✓ From January 2010 to January 2011 a guarantee was in force, amounting to 1 396 thousand PLN extended to the company by STU Ergo Hestia S.A., which secured adequate performance of the contract with the Agricultural Market Agency under the programme of Common Agricultural Policy "Providing Food aid for the European Union poorest people 2010". The security of the bond was a blank promissory note issued by Stoczek Sp. z o.o, and guaranteed by Makarony Polskie S.A. The guarantee was released in January 2011 after the final settlement of the contract.

3.8. MAIN DEPOSITS AND CAPITAL INVESTMENTS IN 2011

In 2011 Makarony Polskie Capital Group did not conduct any capital investment.

3.9. INFORMATION ON LOANS, BAIL BONDS AND GUARANTIES GRANTED IN A GIVEN FINANCIAL YEAR WITH TAKING INTO SPECIAL CONSIDERATION LOANS, BAIL BONDS AND GUARANTIES GRANTED TO SUBSIDIARY ENTITIES OF THE ISSUER

Information on loans granted

I. Makarony Polskie S.A.

In 2011 Makarony Polskie S.A. was party to one loan agreement with Polska Izba Makaronu (PIM - Polish Chamber of Pasta Industry):

	01.01.2011	31.12.2011	Date of concluding the Agreement	Due date
loan granted to PIM	100 thousand PLN	160 thousand PLN	Loan Agreement dated 02.11.2010	30.06.2012

The above loan was granted to Polish Chamber of Pasta Industry for financing the current implementation

of the project "Add energy to yourself and others" which is an educational campaign from the "Grain and Cereal Products Promotion Fund". Its purposes include: education for Polish people on the nutritional value of pasta, and promoting healthy diet.

The interest rate was determined in accordance with the conditions in the market

Due to personal affiliation of Makarony Polskie S.A. (the President of the Company's Management Board is also the Chairman of the Board in the Polish Chamber of Pasta Industry), the granted loan is treated as a transaction with an affiliated entity.

II. Stoczek Sp. z o.o.

In the fiscal year of 2011 Stoczek company did not grant any loans.

Information on sureties granted

I. Makarony Polskie S.A.

In the fiscal year of 2011 Makarony Polskie S.A granted securities to the subsidiary company Stoczek Sp. z o.o. and their situation on 31 December 2011 is presented below:

Foreign liabilities	Creditor's name	Amount of the security	Date of security	Validity period	Situation of the secured liability on the day of 31.12.2011
Surety for the credit in current account amounting to 2.0 million PLN	HSCB Bank Polska S.A.	3 000 thousand PLN	29.10.2009	28.02.2014	2 901 thousand PLN
Surety for the non-revolving credit amounting to 4.0 million PLN	HSBC Bank Polska S.A.	6 000 thousand PLN	29.10.2009	11.03.2016	1 453 thousand PLN
Surety for the multi-purpose line of credit amounting to 2.0 million PLN	Fortis Bank Polska S.A.	2 000 thousand PLN	29.12.2009	27.01.2020	1 894 thousand PLN
Surety on the working-capital loan amounting to 1.2 million PLN	Bank BGŻ S.A.	1 200 thousand PLN	10.11.2010	30.09.2012	1 167 thousand PLN
Surety for the blank promissory note issued by Stoczek as performance bond for the Contract between Stoczek and Agricultural Market Agency	Stu Ergo Hestia S.A.*	23 653 thousand PLN	27.01.2011	30.04.2012	23 653 thousand PLN
Surety for the revolving credit amounting to 2.0 million PLN	Bank BGŻ S.A.	3 000 thousand PLN	27.10.2011	indefinite	2 000 thousand PLN

Surety for the investment creadit amounting to 2.5 million PLN	Bank BGŻ S.A.	3 750 thousand PLN	27.10.2011	indefinite	2 500 thousand PLN

* - the security expired in February 2012 after the complete settlement of the secured contract and release of the relevant guarantee

- ✓ During 2011 the surety for the blank promissory note securing the performance guarantee of the Contract with the Agricultural Market Agency (ARR) under the programme of Common Agricultural Policy "Food aid for the European Union poorest people 2010" which was extended by Makarony Polskie S.A. to Stoczek Sp. z o.o.

II. Stoczek Sp. z o.o.

Stoczek Sp. z o.o. did not grant sureties during the fiscal year of 2011.

Information on guarantees granted

In the financial year 2011 the companies of Makarony Polskie Group did not grant any guarantees.

4. OTHER INFORMATION

4.1. CONTRACTS CONCLUDED BETWEEN THE COMPANY AND THE PERSONS IN MANAGING POSITIONS, WHICH CONTAIN PROVISIONS ON COMPENSATION IN CASE OF THEIR RESIGNATION OR DISMISSAL FROM A GIVEN POSITION WITHOUT A SIGNIFICANT REASON OR WHEN THEIR DISMISSAL RESULTS FROM MERGING THE COMPANY THROUGH ACQUISITION

I. Makarony Polskie S.A. Company

Paweł Nowakowski – President of the Management Board

Pursuant to the valid provisions of the employment contract with Paweł Nowakowski dated 12 May 2010 the President of the Management Board is entitled to an additional severance pay equal to one-month basic remuneration in a situation when his mandate expires at the end of his complete term in office. He will not be entitled to the severance pay if his mandate expires due to his resignation or dismissal before the end of term for which he was appointed. Similarly, the Member of the Management Board will not be entitled to the severance pay if he is appointed for the next term in office, or to the Supervisory Board of the Company or the subsidiary companies, or to the Management Board of the subsidiary company.

Krzysztof Rubak – Vice-President of the Management Board

Pursuant to the valid provisions of the employment contract with Krzysztof Rubak dated 12 May 2010 the Vice-President of the Management Board is entitled to an additional severance pay equal to one-month basic remuneration in a situation when his mandate expires at the end of his complete term in office. He will not be entitled to the severance pay if his mandate expires due to his resignation or dismissal before the end of term for which he was appointed. Similarly, the Member of the Management Board will not be entitled to the severance pay if he is appointed for the next term in office, or to the Supervisory Board of the Company or the subsidiary companies, or to the Management Board of the subsidiary company.

During the period to which this financial report is related the Company did not conclude any contracts with persons in managing positions that would contain provisions on compensation in case of their resignation or dismissal from a given position without a significant reason or when their dismissal results from merging the company through acquisition.

II. Spółka Stoczek Sp. z o.o.

Leszek Trzciński – Vice-President of the Management Board

The valid provisions of the employment contract with Leszek Trzciński (Vice-President of the Management Board) do not envisage a compensation in case of his resignation or dismissal from the position without a significant reason or when his dismissal results from merging the company through acquisition.

4.2. INFORMATION REGARDING OWNERSHIP OF SHARES IN THE PARENT COMPANY AND IN AFFILIATED COMPANIES BY PERSONS HOLDING MANAGING AND SUPERVISORY POSITIONS IN THE PARENT COMPANY

The number of Makarony Polskie S.A shares owned by the members of the Management Board, and their nominal value as of the date of compiling the report (in accordance with available information):

Management Board Zarząd	Shares owned by members of the Management Board on the date of compiling stock exchange report for 2011		Shares owned by members of the Management Board on the date of compiling stock exchange report for the 3rd quarter of 2011	
	Number of shares	Nominal value	Number of shares	Nominal value
Paweł Nowakowski	218 066	654 198	218 066	654 198
Krzysztof Rubak	2 000	6 000	2 000	6 000

In accordance with information available to the Company, during 2011 and in the period preceding the publication of this report there were no changes in the ownership of shares by the members of the Management Board of Makarony Polskie S.A.

Information regarding remuneration paid to the members of the Management Board of the Company was included in the financial report in Note No. 37.

Number of Makarony Polskie S.A shares owned by members of the Supervisory Board, and their nominal value as of the date of compiling the report (in accordance with available information):

Supervisory Board	Shares owned by members of the Supervisory Board on the date of compiling stock exchange report for 2011		Shares owned by members of the Supervisory Board on the date of compiling stock exchange report for the 3rd quarter of 2011	
	Number of shares	Nominal value	Number of shares	Nominal value
Zenon Daniłowski	130 000	390 000	130 000	390 000
Marek Jutkiewicz	1 360 000	4 080 000	1 360 000	4 080 000
Grzegorz Słomkowski *	1 183 040	3 549 120	1 183 040	3 549 120
Urszula Rogóż – Bury	12 680	38 040	12 680	38 040
Marek Rocki	-	-	-	-

* The total number of shares owned by Mr Grzegorz Słomkowski (Co-Chairman of the Supervisory Board) and his wife

In accordance with information available to the Company, during 2011 and in the period preceding the publication of this report there were no changes in the ownership of shares by the members of the Supervisory Board of Makarony Polskie S.A.
Information regarding remuneration paid to the members of the Supervisory Board of the Company was included in the financial report in Note No. 37.

Persons holding management and supervisory positions in Makarony Polskie S.A. do not own shares in entities of Makarony Polskie Capital Group.

4.3. INFORMATION ON ACQUISITION OF THE COMPANY'S OWN SHARES

During the fiscal year of 2011, as well as in the period preceding the publication date of this Report Makarony Polskie S.A. did not acquire its own shares.

4.4. INFORMATION ABOUT CONTROL SYSTEMS FOR EMPLOYEE SHARE SCHEMES

During the fiscal year of 2011, and in the period preceding the publication date of this Report, Makarony Polskie S.A. did not have Employee Share Schemes.

4.5. LIST OF LITIGATIONS HELD BY COURTS, AUTHORITIES CONDUCTING ARBITRATION SETTLEMENTS OR PUBLIC ADMINISTRATION BODIES

During 2011, and in the period preceding the publication date of this Report, companies of Makarony Polskie Group were not subject to any significant litigation.

4.6. INFORMATION ABOUT CONTRACTS KNOWN TO THE COMPANY (INCLUDING THOSE SIGNED AFTER THE BALANCE SHEET DATE) WHICH MAY RESULT IN THE FUTURE CHANGES IN PROPORTIONAL OWNERSHIP OF SHARES BY CURRENT SHAREHOLDERS

The Management Board of the Company does not have information about contracts (including those signed after the balance sheet date) which may result in the future changes in proportional ownership of shares by current shareholders.

4.7. INFORMATION ABOUT THE ENTITY HOLDING THE FUNCTION OF THE STATUTORY AUDITOR

The Supervisory Board of Makarony Polskie S.A. chose Deloitte Audyt Sp. z o.o. with a seat in Warsaw to hold the function of a statutory auditor and to review the financial statements for the 1st half of 2011 and to audit the financial statements of the Companies of Makarony Polskie Group for the fiscal year of 2011. Deloitte Audyt Sp. z o.o. is entered onto the list of entities authorized to audit financial statements against no. 73, and into the Register of Entrepreneurs at the National Court Register of the Capital City of Warsaw, 12th Commercial Division of the National Court Register against number 0000031236.

Makarony Polskie S.A. did not use services of Deloitte Audyt Sp. z o.o. before.

The contract with the aforementioned auditing entity has been concluded for the period of reviewing the financial statements for the 1st half 2011 and auditing financial statements of the Companies of Makarony Polskie Group for the fiscal year of 2011.

Remuneration due for Deloitte Audyt Sp. z o.o. from Makarony Polskie S.A. totals at 70 thousand PLN (25 thousand PLN for the review of the separate and consolidated semi-annual report, 45 thousand PLN for auditing the financial statements of Makarony Polskie S.A. and Makarony Polskie Group for 2011).
Remuneration due for Deloitte Audyt Sp. z o.o. from Stoczek Sp. z o.o. totals at 39 thousand PLN (10 thousand PLN for the review of the semi-annual report, 29 thousand PLN for auditing the financial statement of Stoczek Sp. z o.o. for 2011).

Deloitte Audyt Sp. z o.o. did not provide any additional services to the Company.

5. DECLARATION OF COMPLIANCE WITH CORPORATE GOVERNANCE

5.1. LIST OF REGULATIONS REGARDING CORPORATE GOVERNANCE BINDING FOR MAKARONY POLSKIE S.A. AND PLACES WHERE THE SET OF REGULATIONS IS AVAILABLE TO THE PUBLIC

In 2011 the Company acted in accordance with "Good Practices of WSE listed Companies" (Appendix to Resolution No. 12/1170/2007 of the WSE Supervisory Board dated 4 July 2007). The document containing the set of rules is available at website of the Warsaw Stock Exchange (Giełda Papierów Wartościowych S.A.) http://corp-gov.gpw.pl.

5.2. LISTING OF THE CORPORATE GOVERNANCE RULES THAT WERE NOT OBSERVED BY THE COMPANY INCLUDING THE CIRCUMSTANCES AND REASONS FOR THE FAILURE TO COMPLY WITH A GIVEN RULE

In the fiscal year of 2011 Makarony Polskie S.A. did not comply with recommendation I.1 regarding on-line broadcasts of General Meetings over the Internet, recording the meeting and publishing the recording on the Company website as well as recommendation IV.10 on providing shareholders with an option to participate in the General Assembly by means of electronic communication. According to the estimates of the Management Board of Makarony Polskie S.A., incurring such costs in the present situation is not justified. Additionally, the Articles of Association of Makarony Polskie S.A. do not envisage the possibility of participating in the General Assembly by means of electronic communication pursuant to Art. 406^5 of Commercial Companies Code.

5.3. DESCRIPTION OF THE BASIC CHARACTERISTICS OF THE INTERNAL CONTROL AND RISK MANAGEMENT SYSTEMS APPLIED BY THE COMPANY IN THE PROCESS OF COMPILING FINANCIAL STATEMENTS MAKARONY POLSKIE S.A. AND MAKARONY POLSKIE GROUP

The Company performs ongoing monitoring of significant risk factors related to laws, tax, economy, operation, etc. which determine the general trends in the business activity of Makarony Polskie S.A.

The internal control system in the Company and its effectiveness in the process of compiling financial statements and periodical reports, which are prepared and published in accordance with the provisions of Ordinance of 19 February 2009 on current and periodical information provided by issuers of securities, are a responsibility of the Company's Management Board.

The main assumption of the established internal control system of the Company in financial reporting involves ensuring adequacy and correctness of financial information contained in financial statements and periodical reports.

The Company conducts annual reviews of the strategy and long-term business plans as well as objectives of key processes. Conclusions of such analyses serve as the grounds for the process of detailed budgeting related to all areas of the Company's functioning, and involving medium and high-level management. The annually prepared budget is adopted by the Company's Management Board and approved by the Supervisory Board.

During the year the Company's Management Board performs ongoing analyses of the financial results and compares them with the budget. The analysis is consistent with the accounting policy adopted by the Company, and takes into account the format and the details of the financial data included in the periodical financial reports of the Company and the Group. Results of such analyses are periodically presented to the Supervisory Board.

The Office of Finance is responsible for compiling financial statements, periodical financial reporting and ongoing management reporting of the Company. While presenting financial data in financial statements, periodical financial reports and other reports communicated to investors, the Company uses consistent accounting principles.

Financial data, which are the ground for financial statements and periodical reports, come from the monthly financial and operational reporting processes applied by the Company. Upon closing the accounting for each calendar month the Office of Finance and the Management Board analyse the

financial results of the Company, in comparison to the assumptions and taking into account the business segments.
Identified errors are corrected, as they arise, in the Company's ledgers in accordance with the adopted accounting policy.

The process of compiling financial statements and periodical reports starts once the results for the completed month/period are accepted by the President of the Management Board.

The Company's periodical reports are compiled by the Office of Finance from financial data contained in periodical financial reporting, after they are accepted by the Management Board, and include other supplementary data supplied by specified personnel of the remaining departments.

Once a review or audit is performed by an auditor, the financial statements and periodical reports are submitted to the members of the Company's Supervisory Board for inspection.

5.4. LIST OF SHAREHOLDERS WITH SUBSTANTIAL DIRECT OR INDIRECT HOLDING IN THE COMPANY

Share capital of Makarony Polskie S.A. on the date of compiling the report was equal 27 750 213 PLN and was divided into 9 250 071 shares of nominal value 3.00 PLN per share.

Shareholders who own directly or indirectly, via affiliated entities, the minimum of 5% votes in the total number of votes at the General Meeting of Shareholders as of the date of compiling the report (in accordance with available information)

Shareholder	Number of shares	% share in the Share Capital	Number of votes at the General Meeting	% share in the total number of votes at the General Meeting
Agro-Technika S,A,	2 000 000	21,62%	2 000 000	21,62%
Marek Jutkiewicz	1 360 000	14,70%	1 360 000	14,70%
Elżbieta and Grzegorz Słomkowscy	1 183 040	12,79%	1 183 040	12,79%
OFE Polsat	488 733	5,28%	488 733	5,28%
Others	4 218 298	45,60%	4 218 298	45,60%
TOTAL	**9 250 071**	**100,00%**	**9 250 071**	**100,00%**

During the fiscal year of 2011 and in the period prior to the publication date of the report, the Company did not receive any information on changes in ownership of significant packets of shares.

The Company does not have any other information indicating changes in the number of shares owned by significant shareholders (i.e. entities with packets of votes exceeding 5%).

5.5. LIST OF HOLDERS OF ALL SECURITIES WHICH GRANT SPECIAL CONTROL RIGHTS IN RELATION TO THE ISSUER

Not applicable.

5.6. LIST OF ANY REGULATIONS CONCERNING RESTRICTION OF THE VOTING RIGHTS

Not applicable.

5.7. LIST OF ANY RESTRICTIONS REGARDING THE TRANSFER OF OWNERSHIP RIGHTS TO THE SECURITIES OF MAKARONY POLSKIE S.A.

Not applicable.

5.8. THE RULES GOVERNING ELECTION AND DISMISSAL OF MANAGEMENT BOARD MEMBERS AND THEIR RIGHTS, INCLUDING THE RIGHT TO DECIDE ABOUT SHARE BUYBACK OR ISSUE PROGRAM

The Management Board is be composed of one to three members, including the President and the Vice President appointed and dismissed by the Supervisory Board.

The tenure of the Management Board runs for two years. Members of the Management Board may be appointed for next two-year terms in office. The mandates of the Management Board expire pursuant to art. 369 § 4 of the Commercial Companies Code. If during the term of office of the Company's Management Board a supplementary or an extending election is held, the mandate of the newly appointed member of the Management Board expires simultaneously with the mandates of the remaining members of the Company's Management Board.

The Management Board represents the Company outside and shall take decisions on all issues which pursuant to the Company's Statute and the binding laws have not been reserved to the competency of the remaining authorities of the Company.
The declaration of will on behalf of the Management Board shall be made by:

- ✓ in case of the Management Board consisting of one member - one person,
- ✓ in case of the Management Board consisting of several members:
  - two members of the Management Board acting jointly, or
  - one Member of the Management Board acting together with a Proxy.

The right to decide about share buyback or issue programme in Makarony Polskie S.A.

Pursuant to §9 of the Statute of the Company the share capital may be increased and decreased pursuant to the procedure specified in the Commercial Companies Code as well as by way of a public bid on terms specified in the Act of 29 July 2005 on public bid and terms of introducing financial instruments to an organized trading system, and on public companies.

5.9. RULES OF INTRODUCING CHANGES INTO THE STATUTE OF MAKARONY POLSKIE S.A

The Statute of Makarony Polskie S.A. in the wording which is currently binding does not contain provisions related to changes in the Statute that would be at variance with provisions of the Commercial Companies Code.

Pursuant to art. 430 of the Commercial Companies Code any change in the Statute requires a resolution of the General Meeting of Shareholders and an entry into the register. A resolution of the General Meeting of Shareholders on changes in the Statute requires the ¾ majority of votes given - art. 415 of the Commercial Companies Code.

The Statute of Makarony Polskie S.A. is available at the Company website: www.makarony.pl

5.10. DESCRIPTION OF THE GENERAL MEETING OF SHAREHOLDERS AND ITS FUNDAMENTAL AUTHORIZATIONS AS WELL AS THE RIGHTS OF SHAREHOLDERS AND THE MANNER OF THEIR EXECUTION

The General Meeting of Shareholders acts in accordance with the Statute of the Company and the Regulations of the General Meeting of Makarony Polskie S.A. adopted by Resolution No. 26 of the General Meeting of Shareholders of Makarony Polskie S.A. dated 21 June 2010.

The General Meeting is held at the Company's seat or at another location within the territory of the Republic of Poland, on the date specified in an announcement published on the Company's website www.makarony.pl and contained in a relevant Current Report, in accordance with binding regulations. The place and date of the General Meeting is selected in such a way that allows for the participation of the widest number of Shareholders.

The Annual General Meeting is convened annually by the Management Board and takes place within 6 months from the end of each fiscal year. The Extraordinary General Meeting is convened by the Management Board at its own initiative, by the Supervisory Board whenever it deems such action advisable, or shareholders

representing not less than a half of the share capital or not less than a half of the total number of votes in the Company.

In case the General Meeting is convened by the Supervisory Board or by shareholders representing not less than a half of the share capital or not less than a half of the total number of votes in the Company the Management Board of the Company is obliged to provide such entities with the possibility to correctly convene the General Meeting, including its obligation to announce the information about convening the General Meeting on the Company's website and containing it in the Current Report.

In the fiscal year of 2011 the Annual General Meeting of Makarony Polskie S.A. was held on 24 May. The Management Board also convened one Extraordinary General Meeting which was held on 29 March 2011. The Shareholders of the Company and Members of its Supervisory Board did not submit proposals for convening an Extraordinary General Meeting.

In accordance with the currently binding Statute, the General Meeting of Makarony Polskie S.A. is competent to deal with the following matters:

- ✓ consideration and approval of the Management Board's Statement on the operations of the Company and the financial statements for the previous fiscal year,
- ✓ taking resolutions on distribution of the profit either by way of allocating for payment as a dividend or by way of excluding the whole or part from payment and retaining it in the Company for its purposes, as well as adoption of resolutions on covering losses,
- ✓ granting vote of approval to members of the Company's authorities of the performance of their duties,
- ✓ selling or leasing the Company's enterprise or its organised part and establishing a limited right in property on it,
- ✓ transforming the legal status of the Company, any merging of the Company with another company or with a legal entity,
- ✓ any resolutions concerning claims related to repairing damage caused while forming the Company or exercising supervision or management,
- ✓ changes to the Company's Statute, increasing and decreasing the Company's share capital,
- ✓ issuance of convertible bonds or bonds with priority rights,
- ✓ acquisition of own shares,
- ✓ redemption of Company's shares or acquisition of the Company's shares for the purpose of their redemption ,
- ✓ liquidation and termination of the Company,
- ✓ establishing the number of the Supervisory Board members, and appointing or dismissing Supervisory Board members,
- ✓ establishing terms and conditions of remunerating Supervisory Board members, as well as the amount of the remuneration,

- ✓ approving Bylaws of the Supervisory Board,
- ✓ specifying the date according to which the list of shareholders entitled for dividend for the given fiscal year is determined, i.e. specifying the dividend day without prejudice to the provisions of art. 348 § 2 of the Commercial Companies Code,
- ✓ issues submitted by the Management Board or the Supervisory Board for the General Meeting to resolve,
- ✓ other issues stipulated by the Management Board or the Supervisory Board for the General Meeting to resolve pursuant to binding laws or the Statutes of the Company.

Acquisition or selling of real estate, perpetual usufruct or a share in real estate does not require a resolution of the General Meeting, without prejudice to the provision that acquisition or sale of real estate, perpetual usufruct or a share in real estate of value over 10% (ten percent) of the Company's equity calculated according to the last balance sheet of the Company approved by the General Meeting requires a resolution of the Supervisory Board, unless it has been stipulated in the annual financial plan for the Company approved by the Supervisory Board (§19 letter d of the Statute).

The General Meeting is capable of adopting resolutions irrespectively of the number of shares represented at the General Meeting, unless provisions of the Commercial Companies Code stipulate otherwise. Without prejudice to the provisions of art. 404 of the Commercial Companies Code, the General Meeting may adopt resolutions only concerning issues stipulated in the Commercial Companies Code and in the Statutes, and included in the agenda of a given Meeting.

Resolutions of the General Meeting are adopted by an absolute majority of the votes cast, unless the definitely binding laws or provisions of the Statute stipulate otherwise.

The voting is open. Secret voting is ordered by the Chairman of the General Meeting in case of personal issues and following an application of a shareholder. The right to demand a secret voting is not applicable while adopting order-related resolutions. The General Meeting may abrogate the confidentiality of voting on issues related to the election of committees appointed by the Meeting.

In 2011 the Annual General Meeting looked into the following issues:

- ✓ consideration and approval of the financial statement of the Company and Group for 2010,
- ✓ consideration and approval of the Management Board's report on the activity of the Company and Group in 2010,
- ✓ distribution of net profit for the fiscal year of 2010,
- ✓ consideration of the report of Makarony Polskie S.A. Supervisory Board for the fiscal year,

- ✓ consideration of Makarony Polskie S.A. Supervisory Board's evaluation of the audit of the financial statement of Makarony Polskie S.A. and the report of the Management Board on Activities of the Company,
- ✓ consideration of Makarony Polskie S.A. Supervisory Board's evaluation of the audit of the consolidated financial statement of Makarony Polskie Group and the report of the Management Board on Activities of Makarony Polskie Group
- ✓ granting approval to the Members of the Company's Management Board of the performance of their duties in the fiscal year 2010,
- ✓ granting approval to the Members of the Company's Supervisory Board of the performance of their duties in the fiscal year 2010
- ✓ supplementing the membership of Makarony Polskie S.A. Supervisory Board of the 4th term.

5.11. THE COMPOSITION AND CHANGES WHICH OCCURRED IN IT WITHIN THE PREVIOUS FISCAL YEAR, AND DESCRIPTION OF FUNCTIONING OF THE COMPANY'S MANAGEMENT AND SUPERVISORY BODIES AND THEIR COMMITTEES

MANAGEMENT BOARD

The Management Board of Makarony Polskie S.A. acts in accordance with the binding legal regulations, in particular Commercial Companies Code, the Statute of the Company and the Regulations of the Management Board adopted by Resolution No. 7 of the Supervisory Board of Makarony Polskie S.A. dated 20 June 2006.

Works of the Management Board composed of several members are coordinated by the President of the Management Board. The Management Board takes decisions in the form of resolutions adopted at the meeting convened when necessary (however at least once a month) or by means of distant communication tools, including electronic mail.

Meetings of the Management Board are convened by the President of the Board, who also determines the agenda of the meeting and chairs it. In the absence of the President of the Management Board he is substituted by a authorised Vice-President of the Management Board. Minutes of the Management Board meetings are kept, including resolutions, and the minutes are signed by all members of the Management Board. Meetings of the Management Board may be attended by Supervisory Board members or invited guests delegated by the Supervisory Board, without the right to vote.

The Management Board's resolutions are adopted by an absolute majority of votes. The Management Board resolutions are adopted when all members have been properly notified about the meeting of the Management Board, and in the event resolutions are taken by means of distant communication tools, additionally an approval of such mode of discussion is required from all members of the Management

Board. The President of the Management Board is entitled to conduct the Company affairs without a prior resolution by the Management Board.

Members of the Management Board are obliged to notify the Supervisory Board about each conflict of interests which occurs in connection with the function held by him/her, or about a possibility of such occurrence, and in case of the conflict of Company's interest with personal interests of the member of the Management Board, his/her spouse, or relations or in-law relatives, the member of the Management Board should refrain from participating in settling such matters and should require that it is written down in the minutes.

In the period from 1 January 2011 to 24 May 2011 the Company's Management Board consisted of:

- ✓ Paweł Nowakowski - President of the Management Board,
- ✓ Marek Feruś – Vice- President of the Management Board,
- ✓ Krzysztof Rubak - Vice- President of the Management Board.

The 4th term of the Management Board of Makarony Polskie S.A. ended on 24 May 2011. On 20 May 2011 the Supervisory Board passed a resolution on appointing the Management Board of the 5th term, which came in force on the day of the General Annual Meeting approving the Financial Statement for 2010, i.e. on 24 May 2011. A decision was passed that the Management Board of the 5th term shall consist of two persons. The following persons were appointed to the Management Board: Paweł Nowakowski with the function of the President of the Management Board and Krzysztof Rubak - the Vice-President of the Management Board.

In the period from 24 May 2011 to the date of publishing this report the Company's Management Board has consisted of:

- ✓ Paweł Nowakowski - President of the Management Board,
- ✓ Krzysztof Rubak - Vice- President of the Management Board.

The declaration of will on behalf of the Management Board is made by:

- ✓ in case of the Management Board consisting of one member - one person,
- ✓ in case of the Management Board consisting of several members:
  - two members of the Management Board acting jointly, or
  - one Member of the Management Board acting together with a Proxy.

The functions of Proxy in the Company are held by:

- ✓ Leszek Stankiewicz – Director of Finance at Makarony Polskie S.A. (from 04.01.2012),
- ✓ Grażyna Kozielec – Chief Accountant at Makarony Polskie S.A.

During the fiscal year of 2011 the function of Proxy of Makarony Polskie S.A. was held by Jarosław Szpryngwald. On 4 January 2012 the Management Board cancelled the power of proxy granted to Mr. Jarosław Szpryngwald, due to the termination of cooperation.

SUPERVISORY BOARD

The Supervisory Board of Makarony Polskie S.A. acts in accordance with the Statute of the Company and the Regulations of the Supervisory Board adopted by Resolution No. 17 of the Annual General Meeting of the Shareholders of Makarony Polskie S.A. of 22 June 2007.

The Supervisory Board consists of 5 to 7 members appointed and dismissed by the General Meeting. The Supervisory Board term in office is two years. The mandates of the Supervisory Board members expire on the day the Annual General Meeting approves the Company's financial statement for the last full fiscal year of its office. If during the term in office of the Company's Supervisory Board a supplementary or an extending election has been held, the mandate of the newly appointed member of the Supervisory Board shall expire simultaneously with the mandates of the remaining members of the Company's Supervisory Board.

From 1 January 2011 to 25 February 2011 the Supervisory Board of Makarony Polskie S.A. consisted of:

- ✓ Zenon Daniłowski – Chairman of the Supervisory Board,
- ✓ Marek Jutkiewicz – Co-Chairman of the Supervisory Board,
- ✓ Grzegorz Słomkowski – Co-Chairman of the Supervisory Board,
- ✓ Urszula Rogóż-Bury – Secretary of the Supervisory Board,
- ✓ Marek Rocki – Member of the Supervisory Board.

Marek Jutkiewicz resigned from the function in the Supervisory Board as of 25 February 2011 without stating the reasons to do so.

On 29 March 2011 the Extraordinary General Meeting supplemented the membership of the Supervisory Board of Makarony Polskie S.A. by re-electing Marek Jutkiewicz.

From 29 March 2011 to 18 April 2011 the Supervisory Board of Makarony Polskie S.A. consisted of:

- ✓ Zenon Daniłowski – Chairman of the Supervisory Board,
- ✓ Grzegorz Słomkowski – Co-Chairman of the Supervisory Board,
- ✓ Urszula Rogóż-Bury – Secretary of the Supervisory Board,
- ✓ Marek Jutkiewicz – Member of the Supervisory Board,
- ✓ Marek Rocki – Member of the Supervisory Board.

On 18 April 2011 the Supervisory Board acting in accordance with the Regulations of the Supervisory Board appointed Marek Jutkiewicz for the position of the Co-Chairman of the Supervisory Board.

From 18 April 2011 the membership of the Supervisory Board has not changed and the Supervisory Board has consisted of the following:

- ✓ Zenon Daniłowski – Chairman of the Supervisory Board,
- ✓ Marek Jutkiewicz – Co-Chairman of the Supervisory Board,
- ✓ Grzegorz Słomkowski – Co-Chairman of the Supervisory Board,
- ✓ Urszula Rogóż-Bury – Secretary of the Supervisory Board,
- ✓ Marek Rocki – Member of the Supervisory Board.

Members of the Supervisory Board are selected according to the adequacy of their qualifications and life experience which allow them to appropriately assess the Company's operations and to efficiently participate in performing the functions of the Supervisory Board. Candidates proposed for members of the Supervisory Board are supported with detailed justification to enable an informed election by the General Meeting. Members of the Supervisory Board are selected in accordance with the principle that at least a half of its members should be free from connections with the Company, its shareholders and personnel. Members of the Supervisory Board are entitled to remuneration in accordance with principles set forth by the General Meeting.

The Supervisory Board exercises ongoing supervision over the Company's activity in all aspects.
Competences of the Supervisory Board shall include the following:

- ✓ evaluation of the financial statement and Management Board Report with regard to its conformity with the books and documents as well as with the actual standing, and the evaluation of the Management Board applications regarding the distribution of profit and covering of losses as well as submitting annual reports to the General Meeting on the results of this evaluation,
- ✓ approval of the annual financial plans for the Company and the supervision of their performance,
- ✓ selecting a statutory auditor to audit the Company's financial statement,
- ✓ granting consent to acquire or sell real estate, perpetual usufruct or a share in real estate of value over 10% (ten percent) of the Company's equity calculated according to the last balance sheet of the Company approved by the General Meeting, unless it has been stipulated in the annual financial plan for the Company approved by the Supervisory Board,
- ✓ granting consent to sell the Company's assets, the value of which exceeds 10% (ten percent) of the total value of the Company's equity calculated according to the last balance sheet of the Company approved by the General Meeting, unless it has been stipulated in the annual financial plan for the Company approved by the Supervisory Board,
- ✓ granting consent to assume an obligation or issue a disposition which on the basis of an individual or several related legal transactions exceeds the amount of 10% (ten percent) of the Company's equity

calculated according to the last balance sheet of the Company approved by the General Meeting, unless it has been stipulated in the annual financial plan for the Company approved by the Supervisory Board,

- ✓ granting consent for payment of advance payments towards the stipulated dividend to Shareholders,
- ✓ appointing and dismissing the Company's Management Board or its individual members,
- ✓ establishing rules and conditions of remunerating members of the Management Board as well as the amount of their remuneration.

The Supervisory Board is entitled to examine all operations by the Company, demand reports, explanations, and information from the Management Board and the personnel, verify the books and documents (including financial documents), demand access to all premises of the Company (§10 of the Regulations of the Supervisory Board), while performing their functions the members of the Supervisory Board have the interest of the Company in view (§6 clause 1 of the Regulations of the Supervisory Board).

Works of the Supervisory Board of Makarony Polskie S.A. are coordinated by the Chairman who is elected by the Supervisory Board from among its members. In case of the Chairman's absence the Board's works are coordinated by another member of the Supervisory Board indicated by the Chairman. The Supervisory Board works include meetings, control activities, and participation in works conducted by the Company's authorities.

Each year, the Supervisory Board presents a concise evaluation of the Company's situation to the Annual General Meeting. The evaluation is made available to all shareholders in such time that allows them to get acquainted with it before the Annual General Meeting.

At present no committees are established within the Supervisory Board. This is justified by: the current status of the Company, the composition of its shareholders, as well as organisational and economic aspects, including the necessity to provide additional administrative and legal services to such committees. In accordance with applicable laws the Supervisory Board of Makarony Polskie S.A. has included the tasks of an audit committee to its responsibilities.

Pursuant to §6 clause 3 of the Regulations of the Supervisory Board, a member of the Supervisory Board should inform the remaining members of the Supervisory Board about an ensuing conflict of interest and refrain from expressing an opinion in a discussion and from voting on adopting a resolution on the issue which caused the conflict of interest. A member of the Supervisory Board is obliged to submit valid information to the Management Board on issues related to:

- ✓ personal, actual and organizational connections with a given shareholder, in particular a majority shareholder, and
- ✓ information on acquisition or sale of the Company's shares or shares of the dominant or subsidiary company as well as on transactions with such companies, if they are significant for his/her economic position

in a manner that will make it possible for the Management Board to make such information publicly known, in accordance with the procedure applied by public companies (§7 of the Regulations of the Supervisory Board).

The Supervisory Board is obliged to hold at least 1 meeting every quarter. A meeting of the Supervisory Board is convened, and its agenda is set forth, by the Chairman or a member of the Supervisory Board authorized by him/her. The meeting of the Supervisory Board is valid and has the authority to adopt resolutions if at least 4 members of the Company's Supervisory Board are present and all its members have been duly invited.

Without prejudice to art. 388 § 4 of the Commercial Companies Code, the members of the Supervisory Board may take part in adopting the Board's resolutions by casting their votes in writing through another member of the Supervisory Board, and the Supervisory Board may adopt resolutions in writing or with the use of means enabling direct distant communication.

The voting is open, unless it concerns personal matters or at least one member of the Supervisory Board demands a secret voting. The resolution is valid if all members of the Supervisory Board have been notified about the contents of the resolution draft.

Detailed rules of holding meetings of the Supervisory Board are specified by the Regulations of the Supervisory Board.

The Supervisory Board meetings are registered in the form of minutes which are signed by all present members of the Supervisory Board. A member of the Supervisory Board is entitled to mark their separate opinions in the minutes. Meetings of the Supervisory Board, except those devoted to matters directly connected with the Management Board or its members, in particular: dismissal, responsibilities and determining remuneration, are open to members of the Management Board. Besides the Members of the Management Board, meetings of the Supervisory Board may be attended by invited guests, without the right to vote.

The members of the Supervisory Board are obliged to attend the General Meeting of the Company, as well as an Extraordinary General Meeting of the Company, while an absence requires explanations.

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Krzysztof Rubak	Paweł Nowakowski
Vice- President of the Management Board	President of the Management Board