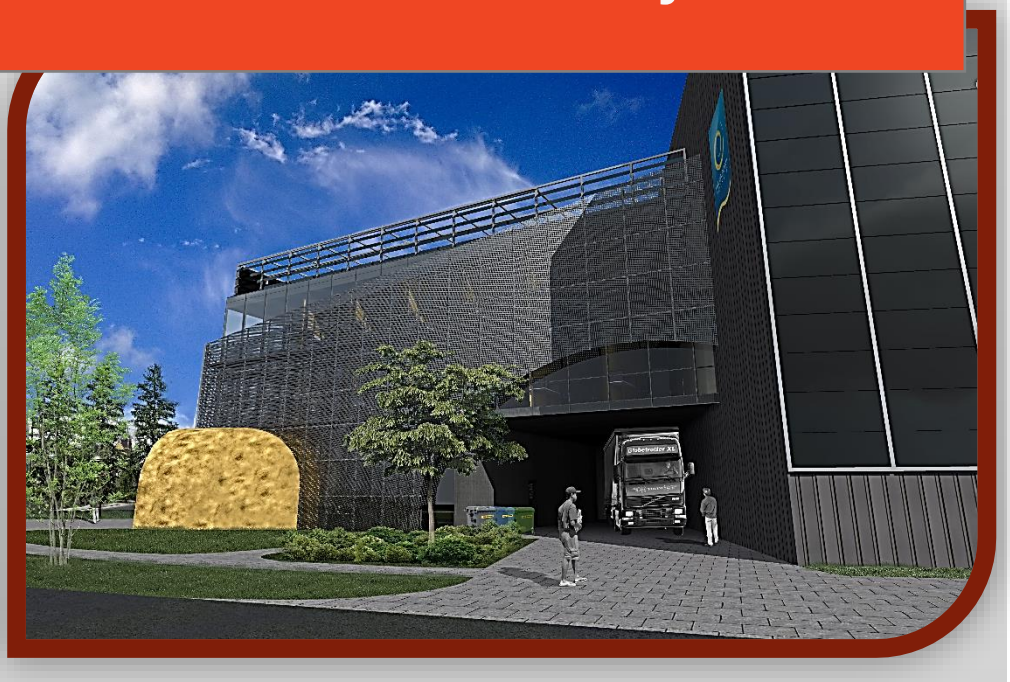
Financial statements of the Makarony Polskie Group in the financial year 2018



Rzeszów, 25 April 2019

Table of contents

General information **5**

Organizational structure of the Makarony Polskie Group 5

Changes in the organization of the Makarony Polskie Group in 2018 6

The employment balance as at 31 December 2018 in the Makarony Polskie Group was as follows: 8

Composition of the Parent's Management Board 8

Shares held by the Management Board Members 9

Composition of the Management Board of subsidiaries 9

Supervisory Board 9

Shares held by Members of the Supervisory Board 10

Shares in subsidiaries 11

General Assembly of Makarony Polskie SA 11

Publication and approval of the financial statements 12

Basis for preparation of the financial statements **13**

Declaration of compliance and the basis for preparing the statements 13

Basis for valuation 13

Functional and presentation currency 13

Accounting principles applied and the basis for preparing the statements 13

Declaration of compliance 14

Amendments to the applied accounting principles **14**

IFRS 15 Revenue from Contracts with Customers 15

IFRS 9 Financial instruments 16

Implementation of IFRS 16 Leasing 22

Entities subject to consolidation 23

Continuation of activity 23

Uncertainty of estimates 27

Table of contents

Selected financial data - Makarony Polskie Group 29

Consolidated financial statements of comprehensive revenues 31

Total income consolidated statement 31

Consolidated statement of other total net income - application of hedge accounting 32

Consolidated statement of the financial position 33

Consolidated statement from cash flows - indirect method 35

Report on changes in consolidated equity 37

Additional notes 38

Notes to the statement of comprehensive income 38

Note No. 1 Sales revenues 38

Note No. 2 Basic information about operating segments 39

Note No. 3 Revenues from sale of products, services, goods and materials - geographical structure 40

Private label 41

Modern trade and traditional trade 42

B2B and Institutions 42

Export 43

Note No. 4 Costs of employee benefits and depreciation costs 45

Note No. 5 Costs of sale 45

Note No. 6 Management costs 46

Note No. 7 Other revenues 46

Note No. 8 Other costs 47

Note No. 9 Financial incomes 48

Note nr 10 Financial costs 48

Note No. 11 Income tax 49

Note No. 12 Deferred income tax 50

Note No. 13 Data regarding the financial result and shares that were used to calculate basic and diluted earnings per share 51

Table of contents

Explanatory notes to the statement of financial position 52

Note No. 14 Tangible fixed assets 52

Note No. 15 Investment real estate 57

Note No. 16 Goodwill 58

Note No. 17 Other intangible assets 59

Note No. 18 Long-term financial assets 61

Note No. 19 Inventories 61

Note No. 20 Receivables 62

Note No. 21 CIT receivables 64

Note No. 22 Borrowings granted 64

Note No. 23 Cash and cash equivalents 64

Note No. 24 Other assets 65

Note No. 25 Share capital 66

Note No. 26 Supplementary capital 67

Note No. 27 Result from previous years 68

Note No. 28 Information on loans and sureties obtained as at 31 December 2018. 70

Note No. 29 Guarantees obtained and granted 78

Note No. 30 Provision for pensions and similar 80

Note No. 31 Long-term and short-term financial liabilities 81

Note No. 32 Other liabilities 81

Note No. 33 Revenue of future periods 83

Note No. 34 Off-balance items 83

Note No. 35 Transactions with related parties 84

Note No. 36 Other items related to assets, liabilities, equity, revenues, costs and net profit or cash flow statement are not typical due to their nature, size or scope 86

Note No. 37 Material Contracts 86

- Contract with Jeronimo Martins Polska SA 86

- Conditions with Lidl network 86

- Contract for co-financing the project entitled "Establishment of the Research and Development Center of the Pasta Industry at Makarony Polskie SA" 87

- Annexes to the investment loan agreement concluded with Santander Bank Polska SA 87

Table of contents

- Contract for co-financing the project entitled" Implementation of the results of research and development in the field of functional food in the Makarony Polskie SA Company." 88

- Annexes to loan agreements concluded with Bank Gospodarstwa Krajowego 89

- Resignation of Stoczek Natura Sp. z o.o. from the implementation of the project entitled "Establishment of a Research and Development Center at Stoczek Natura Sp. z o.o." 89

Note No. 38 Remuneration of members of the Management Board and Supervisory Board 90

Note No. 39 Significant event after the balance sheet date in the period from 1 January 2018 to the date of submission of these financial statements 91

Note No. 40 91

Material accounting principles applied in the preparation of the financial statements 91

Impairment of financial assets - accounting policy applied from 1 January 2018 100

Revenues from contracts with customers - accounting policy applied from 1 January 2018 108

Note No. 42 Goals and principles of managing the financial risk 116

Note No. 43 Capital management 125

Financial instruments 126

Note No. 44 Material proceedings pending before a court or an authority competent for arbitration or a public administration authority 126

Note No. 45 Employment in the Makarony Polskie Group 126

Note No. 46 Remuneration of the statutory auditor 127

General information

Organizational structure of the Makarony Polskie Group

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

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



Makarony Polskie SA is a producer of a wide range of pasta, produced in stamped and rolled technology. The Company offers pasta in many different forms, made on the basis of durum flour and wheat flour. In its portfolio, the Company also has products that respond to the trends of pro-health food, such as pasta from flours less frequently used, for example, spelled, buckwheat, rye and BIO products. The range of products is enriched with flavored pasta (e.g. with spinach and garlic, chili peppers, lovage, parsley and dill), large pasta forms for stuffing and vegetable pasta made from legumes such as chickpeas, red lentils and green peas.

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

Stoczek Natura Sp. z o.o. is a producer of meat and vegetable preserves (ready meals, pies, lard preserves), vegetable preserves (salads, marinades, bakery pastries), processed fruit (jams, syrups, plum confectioners, confectionery fillings) offered under Stoczek, Tenczynek and Męska Rzecz brands, and also dried fruit and vegetables offered under Deli-Susz brand.

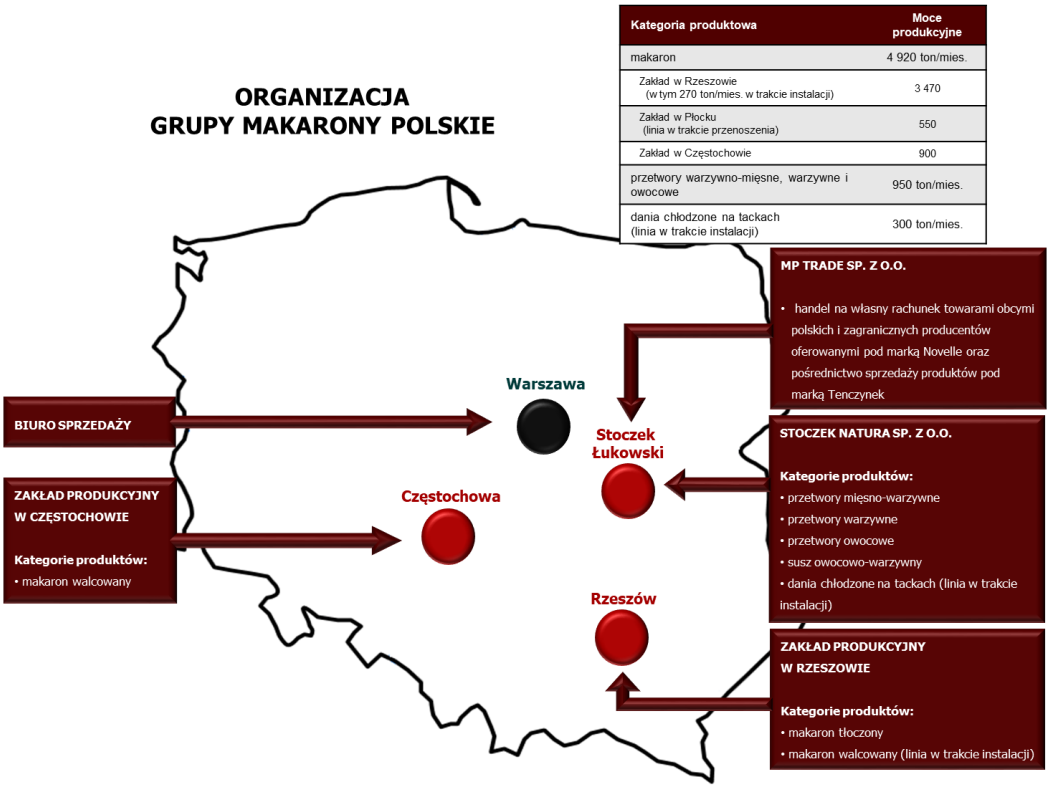
MP Trade Sp. z o.o. develops trade on own account with external goods of Polish and foreign producers. In 2018, the company's activity focused on the intermediation of the sale of Tenczynek brand products and the sale of

products bought from external suppliers under its own Novelle brand. The adopted business model of the Company is now often found on the market. In that model, the main value creating the Company's value is the increase in the value of the brand, and production is contracted outside

Changes in the organization of the Makarony Polskie Group in 2018

In 2018, there were no changes in the Makarony Polskie Group that would significantly affect the structure or organization of the Group.

Within the Makarony Polskie Group, individual companies conclude with each other transactions of purchase and sale of products, goods and services, All transactions are performed under the market terms and conditions.



During the financial year 2018, the reorganization of the activities of the subsidiary, MP Trade Sp. z o.o., started in the second half of 2017. MP Trade Sp. z o.o. during that period acted mainly as an intermediary for the sale of Tenczynek brand products and sold under its own Novelle brand products purchased from external suppliers. The adopted business model is now often found on the market. In that model, the main value creating the goodwill is the increase in the value of the brand, and production is contracted outside.

However, possibilities of increasing the scale of operations and improving the financial results of MP Trade Sp. z o.o., based on the product portfolio currently owned, are limited. The Company commenced the construction of the Novelle brand value by expanding the product portfolio and intensifying marketing activities. New products will be successively introduced into the Novelle brand portfolio.

In subsequent periods, MP Trade Sp. z o.o. will focus on further development and proper positioning of the Novelle brand. The Novelle offer is planned to be expanded to include new product lines based on vegetable proteins and processed products considered deli products, such as a date paste line or a vegetable paste line. Work on the development of new products will be performed in close cooperation with the marketing team of Makarony Polskie SA and New Product Development (NPD) teams operating in the Makarony Polskie Group.

Possibilities of growth of MP Trade Sp. z o.o. depend on one hand on the market situation and on the other hand on the introduction of new innovative products from the vegan and vegetarian areas. The market of products based on raw materials is based on vegetable proteins and delicatessen products, such as the date paste line, vegetable pastes, is growing all over the world.

Considering the development plans of MP Trade Sp. z o.o., Makarony Polskie SA, during the financial year 2018, decided to increase the share capital of MP Trade Sp. z o.o. The capital was increased by PLN 1.0 m, i.e. from PLN 0.5 m to PLN 1.5 m by creating new 10,000 shares with a nominal value of PLN 100.00 with a total value of PLN 1.0 m. The newly created shares were fully covered by the hitherto sole shareholder of the Company - Makarony Polskie SA and were fully covered by a cash contribution. The registration of changes in the share capital was made by the court of the National Court Register on 28 August 2018.

In 2018, there were no changes in the Makarony Polskie Group that would significantly affect the structure or organization of the Group.

Makarony Polskie SA

Registered Office: 35-082 Rzeszów, ul. Podkarpacka 15A,

District Court in Rzeszow, 12th Commercial Division of the National Court Register

KRS number 0000212001,

Share Capital: PLN 27 750 213 - fully paid-up

REGON (National Business Registry Number): 691674708,

NIP [tax identification number]: 813-32-78-856.

www.makarony.pl.

Stoczek Natura Sp. z o.o.

Registered Office: 21-450 Stoczek Łukowski, ul. Dwernickiego 5,

Commercial Court Lublin Wschód with its registered office in Świdnik, 6th Commercial Department

KRS number: 0000050439,

Share Capital: PLN 15 707 800

REGON (National Business Registry Number): 711584640,

NIP [tax identification number]: 825-17-27-212,

www.stoczek.com.pl.

MP Trade Sp. z o. o.

Registered Office: 21-450 Stoczek Łukowski, ul. Dwernickiego 5,

Commercial Court Lublin Wschód with its registered office in Świdnik, 6th Commercial Department

KRS number: 0000579926,

Share Capital: PLN 1,500,000,

REGON (National Business Registry Number): 362706449,

NIP [tax identification number]: 825-21-76-004,

www.mp-trade.pl.

The employment balance as at 31 December 2018 in the Makarony Polskie Group was as follows:

Makarony Polskie SA – 139 employees,

Stoczek Natura Sp. z o.o. – 47 employees,

MP Trade Sp. z o.o. – 0 employees.

Composition of the Parent's Management Board

In the period from 1 January 2018 to the date of publication of these financial statements, the Management Board of the Company has operated as a one-person Management Board. Zenon Daniłowski is the President of the Management Board

Shares held by the Management Board Members

Number and nominal value of the Company's shares held by the Members of the Management Board as at the date of the statements:

Member of the Management Board	2018		2017	
	number of shares	nominal value	number of shares	nominal value
Zenon Daniłowski*	140 000	420 000	140 000	420 000

* President of the Management Board Zenon Daniłowski is associated with the following companies: Praska Giełda Spożywcza SA (former: Agro-Technika SA) and Polskie Smaki Sp. z o.o., which also hold shares in the Company; the total balance of ownership as at the date of publication of the statements is 2,311,594 shares worth PLN 6,934,772.

In accordance with the information held by the Company, during 2018 and until the date of publication of these statements, there were no changes in the ownership of shares held by the President of the Management Board.

Composition of the Management Board of subsidiaries

As at 31 December 2018 and the date of publication of these financial statements, the management boards of subsidiaries consisted of:

- Stoczek Natura Sp. z o.o.: Rafał Dziobko - President of the Management Board, Adam Ławnik - Vice President of the Management Board
- MP Trade Sp. z o.o.: Zenon Daniłowski - President of the Management Board.

The function of the Proxy in Stoczek Natura Sp. z o.o. is fulfilled by Mrs. Alicja Hinz - Chief Accountant is full (the proxy is joint - the proxy may represent the Company only jointly with another proxy or a member of the Management Board).

During the financial year 2018, the function of the proxy was also performed by Mr. Dariusz Cylka - the proxy was canceled by the Management Board of the Company on 17 April 2019.

Supervisory Board

From 1 January 2018 to 28 June 2018, the Supervisory Board was composed of:

- Roman Sobiecki – Chairman of the Supervisory Board
- Samer Abdelfatah Mohamed El Waziri – Member of the Supervisory Board,

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

In connection with the end of the 7th term of the Supervisory Board, on 28 June 2018, the Ordinary General Assembly of the Company appointed the 8th term Supervisory Board, until now the composition of the Supervisory Board has not changed, the Supervisory Board is composed of:

- Roman Sobiecki,
- Samer Abdelfatah Mohamed El Waziri,
- Marek Rocki,
- Michał Słomkowski,
- Wiesław Wasilewski.

The Supervisory Board was constituted on 29 June 2018. Mr. Roman Sobiecki became the Chairman of the Supervisory Board, and Mr. Samer El Waziri became the Vice-Chairman of the Supervisory Board.

Shares held by Members of the Supervisory Board

Number and nominal value of the Company's shares held by the Members of the Supervisory Board as at the date of the statements:

Member of the Supervisory Board	2018		2017	
	number of shares	nominal value	number of shares	nominal value
Marek Rocki	0	0	0	0
Michał Słomkowski	0	0	0	0
Roman Sobiecki	0	0	0	0
Samer Elwaziri	0	0	0	0
Wiesław Wasilewski	5 000	15 000	5 000	15 000

In accordance with the information held by the Company, during 2018 and until the date of publication of these statements, there were no changes in the ownership of shares held by the Members of the Supervisory Board.

Shares in subsidiaries

The managing and supervising persons of Makarony Polskie SA do not hold shares in subsidiaries of the Makarony Polskie Group.

General Assembly of Makarony Polskie SA

The share capital of Makarony Polskie SA as at 31 December 2017 amounted to PLN 27 750 213 and was divided into 9 250 071 shares with a nominal value of PLN 3 each. The share capital has not changed until the date of these statements.

Shareholders holding directly or indirectly through subsidiaries, at least 5% of votes in the total number of votes at the General Assembly of the Company as at the date of the statements (in accordance with the information available):

Shareholder	Shares in share capital		Votes at the General Assembly	
	number	% share	number	% share
Grupa Praska Giełda Spożywcza SA, including:	2 311 594	24.99%	2 311 594	24.99%
Praska Giełda Spożywcza SA (former: Agro-Technika SA)	*2 050 000*	*22.16%*	*2 050 000*	*22.16%*
Zenon Daniłowski	*140 000*	*1.51%*	*140 000*	*1.51%*
Polskie Smaki Sp. z o.o.	*121 594*	*1.31%*	*121 594*	*1.31%*
Raya Holding for Technology&Communications S.A.E. including:	1 793 406	19.39%	1 793 406	19.39%
Madova Sp. z o.o.	*1 793 406*	*19.39%*	*1 793 406*	*19.39%*
Elżbieta i Grzegorz Słomkowscy, including:	1 183 040	12.79%	1 183 040	12.79%
Z.P.H. "ELPAST" Elżbieta i Grzegorz Słomkowscy s.c.	*1 169 750*	*12.65%*	*1 169 750*	*12.65%*
Grzegorz Słomkowski	*13 290*	*0.14%*	*13 290*	*0.14%*
Krzysztof Moska	580 969	6.28%	580 969	6.28%
Other shareholders	3 381 062	36.55%	3 381 062	36.55%
TOTAL	9 250 071	100.00%	9 250 071	100.00%

Changes in shareholding in 2018

On 31 July 2018, the Company received a notification sent by Mr. Krzysztof Moska regarding an increase in the ownership of shares of Makarony Polskie SA. Pursuant to Article 69 paragraph 1 point 1 of the Act, Mr. Krzysztof Moska announced that as a result of the acquisition of 232 893 shares of Makarony Polskie SA on 27 July 2018, as part of the session transactions for the purchase of shares on the regulated market of the Warsaw Stock

Exchange, there has been a change of the share so fare held thereby, in such a way that the threshold of 5% of the total number of votes was exceeded at the General Assembly of the Company ("Change of Ownership").

Before the Change of Ownership, Mr. Krzysztof Moska held 348,076 shares of the Company, constituting 3.76% of the share capital of the Company and 3.76% of the total number of votes at the General Assembly of the Company, i.e. entitling to 348,076 votes from the Company's shares. After the Change of Ownership, Mr. Krzysztof Moska holds a total of 580 969 shares of the Company, constituting 6.28% of the share capital of the Company and 6.28% of the total number of votes at the General Assembly of the Company, i.e. entitling to exercise 580 969 votes from the Company's shares.

At the same time Mr. Krzysztof Moska announced that he does not have any subsidiaries holding shares of the Company, that there are no persons referred to in Article 87 paragraph 1 point 3 item c of the Act and that it does not have the financial instruments referred to in Article 69b paragraph 1 of the Act.

The Company has no other information that would indicate changes in the number of shares held by material shareholders (holding stakes over 5%) during 2018 and until the date of publication of these statements.

The Company has no knowledge of other contracts (including those concluded after the balance sheet date) as a result of which there may be in the future any changes in the proportions of shares held by the existing shareholders.

Publication and approval of the financial statements

These consolidated financial statements were audited by an entity authorized to audit financial statements and were approved by the Management Board for publication on 25 April 2019.

The financial statements of the Makarony Polskie Group for 2017 were approved by the Resolution No. 6 of the Ordinary General Assembly of Makarony Polskie SA on 28 June 2018.

Basis for preparation of the financial statements

Declaration of compliance and the basis for preparing the statements

These Consolidated Financial Statements have been prepared on the basis of International Accounting Standards as adopted by the European Union (EU) and related interpretations announced in the form of implementing regulations of the European Commission (hereinafter referred to as "IFRS"), published and applicable at the time of preparation of these financial statements.

To the extent not covered by the above standards, these consolidated financial statements have been prepared in accordance with the requirements of the Act of 29 September 1994 on accounting and implementing regulations issued on its basis.

Basis for valuation

The presented Consolidated financial statements have been prepared in accordance with the historical cost principle, with the exception of fair value measurement of some assets, i.e. assets acquired as part of the purchase transaction, Abak Sp. z o.o. Tenczynek brands, Deli Susz and investment land.

Functional and presentation currency

The measurement currency of the Group, included in these consolidated financial statements and the reporting currency of these financial statements is the Polish zloty.
Unless indicated otherwise, the financial data is denominated in PLN k.

Accounting principles applied and the basis for preparing the statements

The accounting principles used to prepare the consolidated financial statements are consistent with those applied to the preparation of the annual consolidated financial statements for the year ended 31 December 2017 (published on 20 March 2018), except for amendments to standards and new interpretations applicable to annual periods commencing on 1 January 2018.
Duration of the Company operation is unlimited.
The financial year shall be the calendar year.

The financial statements were prepared for the same reporting period using consistent accounting principles.

Declaration of compliance

Polish legal regulations impose on the Makarony Polskie Group the obligation to prepare financial statements in accordance with the International Financial Reporting Standards ("IFRS") adopted by the European Union ("EU").

The consolidated financial statements of the Makarony Polskie Group for the 12 months ended 31 December 2018 have been prepared using the accounting principles consistent with the International Financial Reporting Standards approved by the European Union (EU) and were effective as at the date of the financial statements.

The annual consolidated financial statements are in line with the requirements of the Regulation of the Minister of Finance dated 29 March 2018 on the current and periodic information disclosed by issuers of securities and conditions for recognizing as equivalent information required by the laws of a non-member state (Journal of Laws of 2018, item 757).

These consolidated financial statements have been prepared with the assumption of going concern in the predictable future, because there are no circumstances indicating a threat to its continuation. They have been prepared using the principles of valuation of assets and liabilities and the measurement of the net financial result determined as at the balance sheet date

The consolidated financial statements have been prepared using the accounting principles consistent with the International Financial Reporting Standards approved by the European Union (EU) and were effective as at the date of the financial statements, and in matters not regulated, according to the Accounting Act of 29 September 1994.

The presented consolidated financial statements correspond to all IFRS requirements adopted by the European Union and also present the financial and property standing of the Group as at 31 December 2018

Amendments to the applied accounting principles

The accounting principles (policies) used to prepare these financial statements are consistent with those applied to the preparation of the financial statements of the Company for the year ended 31 December 2017, except for new or amended standards and interpretations applicable to annual periods commencing on 1 January 2018, and thereafter.

The Company applied for the first time IFRS 15 *Revenue from contracts with customers* ("IFRS 15") and IFRS 9 *Financial Instruments* ("IFRS 9"). Other new or amended standards and interpretations that apply for the first time in 2018 have no material impact on the Company's financial statements.

In the Company's opinion, the introduction of IFRS 15 and IFRS 9 does not have a material impact on the applied accounting principles (policy) with respect to the operations of the Company and the financial result as at the first application date, i.e. 1 January 2018.

New accounting standards and interpretations that were published and approved by the EU, which came into force in 2018

IFRS 15 Revenue from Contracts with Customers

IFRS 15 repeals IAS 11 *Construction Contracts*, IAS 18 *Revenues* and related interpretations and applies to all contracts with customers, except those that fall within the scope of other standards. The new standard is established by the so-called "Five Steps Model" of recognizing revenues resulting from contracts with customers. In accordance with IFRS 15, revenues are recognized in the amount of remuneration which, according to the entity's expectation, is due in exchange for the transfer of promised goods or services to the customer.

The application of IFRS 15 requires the Management Board to make judgments on each of the five steps of the established model.

The Company implemented IFRS 15 using the modified retrospective method, i.e. with the combined effect of the first application of the standard recognized on the day of the first application, i.e. on 1 January 2018. The Company applied IFRS 15 retrospectively only to contracts that are not completed as at the date of first application.

The Company operates in the area of:

Sales of products and goods

If the contract contains only one obligation to perform the service - sale of the goods, the revenue is recognized at a specific moment, i.e. when the customer obtains control over the goods (at the time of delivery, as a rule). Consequently, the impact of adopting IFRS 15 at the moment of recognizing revenue from such contracts, is not material.

Advances received from customers

So far, the Company has presented advances received from customers in the item "Other non-financial liabilities". In accordance with the existing accounting policy (principles), the Company did not recognize interest expenses on advances received, including long-term ones.

In accordance with IFRS 15, the Company assesses whether the contract contains a material element of financing. The Company decided to use the practical solution, according to which it does not correct the promised amount of remuneration by the impact of a material element of financing, if at the time of contract it is expected, that the period from the transfer of the promised good or service to the customer until payment for the good or service by the customer will not be more than one year. Therefore, the Company did not separate a material element of financing, for short-term advances.

The application of IFRS 15 did not have a material impact on the statement of financial position, the statement of comprehensive income, the cash flow statement.

IFRS 9 Financial instruments

IFRS 9 replaces IAS 39 *Financial Instruments*: *Recognition and Measurement* and applies for annual periods beginning on 1 January 2018 or later. IFRS 9 addresses three areas related to financial instruments: classification and measurement, impairment and hedge accounting.

The Company has applied IFRS 9 from the effective date of the standard, without transforming the comparative data. Adjustments related to the application of IFRS 9 were introduced on 1 January 2018 with reference to the impact on equity.

a) Classification and valuation

In accordance with IFRS 9, with the exception of certain trade receivables, at the moment of initial recognition, an entity measures a financial asset at its fair value which, in the case of financial assets not carried at fair value through profit or loss, it is increased by transaction costs which can be directly attributed to the purchase of those financial assets.

After initial recognition, the entity measures a financial asset at depreciated cost, at fair value by other comprehensive income or at fair value by profit or loss. The entity classifies a financial asset based on the entity's business model for the management of financial assets and characteristics arising from the cash flows contract for a financial asset (the so-called "SPPI criterion").

The classification and valuation of the Company's financial assets in accordance with IFRS 9 is as follows:

i. Debt instruments measured at depreciated cost, maintained in accordance with the business model, whose purpose is to maintain financial assets for obtaining cash flows arising from the contract, being only repayment of the principal and interest on the principal remaining to be repaid. This category includes

receivables, loans and cash and cash equivalents. The application of the new standard did not affect the valuation.

ii. Debt instruments are measured at fair value through other comprehensive income, for which accumulated profits or losses previously recognized in other comprehensive income are subject to reclassification to the financial result at the moment of cessation of recognition. This category includes classes of financial assets that meet the SPPI criterion and are maintained in accordance with the business model, which aims to both receive cash flows resulting from the contract, and the sale of financial assets. The Company has not identified classes of assets classified in this category.

iii. Equity instruments are measured at fair value through other comprehensive income, for which accumulated profits or losses previously recognized in other comprehensive income are not subject to reclassification to the financial result at the moment of cessation of recognition. This category includes classes of financial assets in which the Company made an irrevocable selection in the scope of the valuation at the time of the initial recognition or as at the date of the first application of IFRS 9. The Company has not identified classes of assets classified in this category.

iv. Financial assets valued at fair value through profit or loss include classes of financial assets that have not been classified in any of the previous categories, e.g. the SPPI criterion has not been met. The Company has not identified classes of assets classified in this category.

The Company has assessed the business model as of the date of the first application of IFRS 9, i.e. 1 January 2018, and then applied retrospectively regardless of what was the business model in previous reporting periods for those financial assets for which recognition has not been discontinued before 1 January 2018. The Company assessed the fulfillment of the SPPI criterion based on facts and circumstances that occurred at the moment of initial recognition of the financial asset.

IFRS 9 does not introduce material changes in the classification and measurement of financial liabilities, except for modifications that do not result in the cessation of the recognition of an existing financial liability. The new standard requires the entity to recognize the adjustment to the depreciated cost of a financial liability as income or expense in the financial result at the time of modification.

b) Impairment

The application of IFRS 9 fundamentally changes the approach to impairment of financial assets by departing from the concept of loss incurred in favor of expected loss, where the entire expected credit loss is recognized *ex-ante.*

In the case of trade receivables, the Company applies a simplified approach and measures the write-down for expected credit losses in the amount equal to the expected credit losses over the whole life using the reserve matrix. The Company uses its historical data on credit losses, adjusted by the information about the future, where appropriate.

In the case of other financial assets, the Company measures the write-down for expected credit losses in the amount equal to 12-month expected credit losses. If the credit risk related to a given financial instrument has significantly increased since the initial recognition, the Company measures the write-down for the expected credit losses from the financial instrument in an amount equal to the expected credit losses over the entire lifetime.

At the same time, the Company assesses that default occurs when, for example, the delay in payment exceeds 365 days.

c) Hedge accounting

The Company did not decide to apply IFRS 9 in the area of hedge accounting.

Change in the classification and measurement of the Company's financial instruments as at the date of first application of IFRS 9:

	Classification		*Carrying amount according to IAS 39 and IFRS 9 as at 1 January 2018*
	IAS 39	*IFRS 9*	
Receivables by virtue of supplies and services and other receivables	Loans and liabilities	Measured at depreciated cost	23 121
Cash and cash equivalents	Loans and liabilities	Measured at depreciated cost	415
Borrowings granted	Loans and liabilities	Measured at depreciated cost	2 013
Liabilities from deliveries and services	Other short-term liabilities	Measured at depreciated cost	18 554
Liabilities from loans and borrowings	The liability is measured at depreciated cost	Measured at depreciated cost	17 505

Liabilities due to financial leasing	Other financial liabilities	Measured at depreciated cost	2 717

The application of IFRS 9 did not have a material impact on the statement of financial position, the statement of comprehensive income, the cash flow statement. The general method used for the valuation is the depreciated cost method, therefore the carrying amount of financial assets and liabilities as at the date of implementation of IFRS 9 is the same as in the case of IAS 39.

Standards and interpretations are mentioned that have been published and endorsed by the EU, but not yet entered into force as at balance sheet day

In this financial statement, the Group did not make the decision on early application of published standards and interpretations before they came into force.

The following standards and interpretations were issued by the International Accountancy Standard Board and the International Financial Reporting Interpretations Committee and did not come into force at the balance sheet date.

- IFRS 14 *Regulatory Deferral Accounts*

The new standard was published on 30 January 2014 and applies to annual periods beginning on 1 January 2016 or later. The new standard is temporary due to the ongoing work of the IASB on regulating the settlement of operations in the conditions of price regulation. Standard. The standard introduces principles for recognizing assets and liabilities arising in connection with transactions with regulated prices in the case when an entity decides to change to IFRS.

The Group will apply the new standard no earlier than on the date set by the European Union as the date of entry into force of that standard. Due to the transitional nature of the standard, the European Commission decided not to launch a formal procedure for approving the standard and wait for the target standard.

- IFRS 16 *Leasing*

The new standard was published on 13 January 2016 and applies to annual periods beginning on 1 January 2019 or later, and its earlier application is permitted (but subject to the simultaneous application of IFRS 15). The standard replaces the existing regulations regarding leasing (incl. IAS 17) and radically changes the approach to lease agreements of various nature, requiring the lessee to recognize in the balance sheets assets and liabilities under concluded leasing agreements, irrespective of their type.

- IFRS 17 *Insurance Contracts*

The new standard was published on 18 May 2017 and applies to annual periods beginning on 1 January 2021 or later. Its earlier application is allowed (subject to the simultaneous application of IFRS 15 and IFRS 9). The standard replaces the existing regulations regarding insurance contracts (IFRS 4).

- Amendments to IFRS 10 and IAS 28: *Sale or contribution of assets between the investor* and its affiliate or joint venture

Amendments to IFRS 10 and IAS 28 have been published on 11 September 2014 and apply to annual reporting periods starting from 1 January 2016 or later. (the date of entry into force has now been postponed without indicating the starting date). The amendments clarify the accounting for transactions in which the parent Company loses control over a subsidiary which is not a "business" as defined in IFRS 3 "Entities mergers", through the sale of all or part of shares in this subsidiary to an affiliate or joint venture accounted for using the equity method.

The Group will apply the amendments to the standards no earlier than on the date set by the European Union as the date of entry into force of this standard. The European Commission has decided to postpone the formal approval procedure for the revised standards.

- IFRIC 23 *Uncertainty in the manner of income tax recognizing*

The new interpretation was published on 7 June 2017 and applies to annual periods starting from 1 January 2019 or later. The purpose of the interpretation is to indicate how to include income tax in financial statements in cases where the existing tax regulations may leave room for interpretation and disagreement between the entity and tax authorities.

- Amendment to IFRS 9: *Prepayments with negative compensation*

The amendment to IFRS 9 was published on 12 October 2017 and applies to annual periods beginning on 1 January 2019 or later. Its purpose is to indicate valuation principles for financial assets that can be repaid earlier on the basis of contractual terms and, formally, could not meet the requirements of the "principal and interest only" test, which would exclude their measurement at depreciated cost or at fair value through other comprehensive income.

- Amendment to IAS 28: *Long-term shares in affiliates and joint ventures*

The amendment to IAS 28 was published on 12 October 2017 and applies to annual periods beginning on 1 January 2019 or later. Its purpose is to indicate the valuation principles for shares in affiliates and joint ventures in a situation where they are not measured using the equity method.

- Changes in different standards resulting from annual review of International Financial Reporting Standards (Annual Improvement *2015-2017*)

On 12 December 2017 as a result of the review of IFRS, minor improvements were introduced to the following standards:

- IFRS 3 *Entities mergers*, to clarify that when the control is taken over, the entity reassesses the shares held in the joint operation,

- IFRS 11 *Joint contractual arrangements,* to clarify that when the joint control is taken over, the entity does not measure its shares again in the joint operation,

- IAS 12 *Income tax*, indicating that all tax consequences of dividend payments should be recognized in the same manner,

- IAS 23 *Borrowing Costs*, ordering to include in the financing sources of a general nature also those credits and loans that originally served to finance the emerging assets - from the moment when the assets are ready for use in accordance with the intended purpose (use or sale).

It is applied to annual periods starting on 1 January 2019 or later.

- Amendments to IAS 19: *Change, limitation or settlement of the program*

The changes in IAS 19 have been published on 7 February 2018 and apply to annual reporting periods starting from 1 January 2019 or later. The amendments relate to the way of re-pricing of defined benefit plans in case they change. Amendments to the standard mean that in the case of re-valuation of net assets/liabilities for a given program, the updated assumptions should be applied to determine the current cost of employment and interest costs for periods after the change of the program. Until now, IAS 19 did not explain this precisely.

- Amendment to IFRS 3 *Merger of entities*

The amendment to IFRS 3 was published on 22 October 2018 and applies to annual periods beginning on 1 January 2020 or later.

The aim of the change was to clarify the definition of a business and to distinguish acquisitions of "businesses" from groups of assets for the purpose of settling the mergers.

- Amendments to IAS 1 and IAS 8: *Definition of the term "material"*

Amendments to IAS 1 and IAS 8 have been published on 31 October 2018 and apply to annual reporting periods starting from 1 July 2020 or later.

The purpose of amendments was to clarify the definition of "materiality" and to facilitate its application in practice.

The Group is currently analyzing the impact of the above amendments on its financial statements.

Implementation of IFRS 16 Leasing

In January 2016, the International Accounting Standards Board issued International Financial Reporting Standard 16 Leasing ("IFRS 16"), which replaced IAS 17 Leasing, IFRIC 4 Determining whether the contract includes leasing, SKI 15 Operating leasing - special promotional offers and SKI 27 Assessment of transactions using the form of leasing. IFRS 16 sets out the accounting principles for leasing in terms of valuation, presentation and information disclosure.

IFRS 16 introduces a single model of the lessee's accounting and requires the lessee to recognize assets and liabilities resulting from each lease with a period exceeding 12 months, unless the underlying asset is of low value. On the date of the commencement, the lessee recognizes an asset component due to the right of use of the underlying asset and a lease liability that reflects its obligation to make lease payments.

The Company is a lessee in the case of lease agreements for office and warehouse space.

IFRS 16 is effective for annual periods beginning on 1 January 2019 and later. Earlier application is permitted for entities that apply IFRS 15 from or before the first application of IFRS 16. The Company did not decide to apply IFRS 16 earlier.

The Company plans to implement IFRS 16 using a modified retrospective method.

In summary, the Company expects the impact of the implementation of IFRS 16 to be as follows:

The right to use the assets as at 31.12.2018: PLN 3.8 m

Liabilities due to leasing other financial liabilities as at 31.12.2018: PLN 3.8 m

Forecasted impact on the statement of comprehensive income in 2019:

- increase in depreciation: PLN 0.9 m

- increase of interest costs: PLN 0.1 m

- decrease in external services: PLN 1.0 m

Forecasted impact on the statement of cash flows in 2019:

- increase in net cash flows from operating activities: PLN 1.0 m

- decrease in net cash flows from financing activities: PLN 1.0 m

Entities subject to consolidation

as at 31 December 2016	Stoczek Natura Sp. z o.o.	MP Trade Sp. z o. o.
Type of relationship	a direct subsidiary	a direct subsidiary
Consolidation method	full	full
Date of taking control	1 June 2007	28 September 2015
% held capital	100%	100%

Continuation of activity

The consolidated financial statements of the Makarony Polskie Group have been prepared on the assumption that the business will be continued in the foreseeable future and not significantly reduced. The Group did not perform any activities that were discontinued. As at the date of preparation of the consolidated financial statements of the Group, the Management Board of Makarony Polskie SA does not state any facts or circumstances indicating a threat to its going concern in the foreseeable future.

In accordance with the adopted strategy, the Group will continue its adopted operational model.

The Makarony Polskie Group will focus its activities on the following directions:

Building a competitive advantage through investments in R&D, product, process and organizational innovations

- development of R&D activity in the area of innovative products: functional, health-oriented food in Makarony Polskie SA, an interdisciplinary team was established, which in cooperation with scientific institutions works on developing innovative technologies for the production of new low-processed and health-promoting products that are easy to prepare,
- implementation of the extension of the production and storage building by the next part, i.e. the building of the flour junction for the storage of raw materials and powdery additives, as well as the cold store for raw materials and liquid additives as part of the CBR project implementation,
- completing the investment in an automated system of dosing flour and loose ingredients in a production plant in Czestochowa, which enabled the extension of production capabilities and making the production process more flexible,

- purchase of a machine, horizontally packing, which enables packaging of products in a new attractive category of packaging and forming promotional packages that will be widely used in marketing campaigns,
- implementation for sale of rolled pasta fettuccine - multi-egg, which are a promising product, popular among customers, with a wide culinary application,
- in the Czestochowa plant investments are being performed, which will contribute to reducing energy consumption and labor consumption in the production process as well as increasing product safety,
- in Stoczek Natura Sp. z o.o. research is performed to adapt to global food production trends: convenience products, health-related products, innovative forms of packaging of offered products.

Acquiring funds from the European Union for the implementation of activities and investments planned by the Group

- project entitled "Implementation of research and development results in the field of functional food in Makarony Polskie SA", implemented under Measure 1.4 Support for SMEs, Regional Operational Program of the Podkarpackie Region 2014-2020, assumes the implementation of research and development results performed in cooperation with the scientific unit, based on the development of innovative recipes of products using raw materials that are not standard in the pasta industry. The main objective of the project is the expansion of Makarony Polskie SA on the functional food market,
- project entitled "Establishment of the Research and Development Center of Pasta Industry at Makarony Polskie SA", implemented under Measure 2.1 Support for investment in enterprise R&D infrastructure, Intelligent Development Operational Program 2014-2020, assumes establishment of a Research and Development Center of Pasta Industry at the Makarony Polskie SA. The B&R Center will conduct work on innovative products with pro-health features that will ultimately enrich the Company's product offer as well as issues relevant to the entire pasta industry. The Company plans to purchase fixed assets and construction works, as part of the project. For the needs of the B&R Center, the purchase will include a modern production test line, whose parameters will reflect the conditions prevailing during the industrial production process (that line will be an asset of material value),
- project of Stoczek Natura Sp. z o.o. entitled "Improving the energy efficiency of Stoczek Natura Sp. z o.o." implemented under the Priority Axis 5 Energy efficiency and low-emission economy Measure 5.1 Improving the energy efficiency of enterprises of the Regional Operational Program of the Lubelskie Region for the years 2014-2020, assumes

improvement of the energy efficiency of Stoczek Natura Sp. z o.o. through a deep thermo-modernization of the company's building.

Based on the conducted energy audit, the enterprise will implement as part of the project improvement in the reduction of heat and electricity demand, serving to ensure conditions in the premises enabling the implementation of the production process taking place there. The objective of the project will be achieved through: implementation of preparatory works, purchase of materials and construction works as well as necessary fixed assets.

- project of Stoczek Natura Sp. z o.o. entitled "Increase in competitiveness of Stoczek Natura Sp. z o.o.", implemented under measure 3.7 RPO WL 2014-2020, assumes increasing the competitiveness and innovativeness of the Company on the domestic and international market by implementing the results of R&D works possessed and introducing to the production innovations in the form of meat product ready meals technology. The subject of the project is the implementation of innovative solutions through the modernization of the line for the production of ready meals in jars and cans.

  The implementation of the project will positively affect the improvement of the quality and innovativeness of the offered products, their repeatability and increased production efficiency. In addition, as a result of the project, the Company will be able to introduce new products with pro-health values to the commercial offer, addressed to a new group of consumers.
- project of Stoczek Natura Sp. z o.o. entitled "Introduction of product innovation to increase the competitiveness of Stoczek Natura Sp. z o.o. ", implemented as part of the Operational Program Eastern Poland for the years 2014-2020 from Measure 1.4. Pattern for competition, assumes the development of the company, increase its competitiveness and innovation, by increasing the company's potential in the skillful management of design and increasing the use of design in business. The planned effect of the project is the introduction of new innovative products on trays to the company's offer, implementation of product, process and marketing innovation, purchase of a modern technological line for the production of ready meals on trays, extension of the customer group, increase in sales revenue, automation of production processes, increase of awareness of design management in organizational structures, consistent company communication in the field of visual identification for the company and diversification of plant production through the introduction of previously unproduced products. The completion of the project is scheduled for August 2019
- Group companies apply for EU funds under the 2014-2020 perspective to accelerate and expand the scope of investments in the modernization of machinery used in the current production profile and to develop new business areas to maintain market position and meet the growing demand for new, innovative products and packaging.

Activity development in the private label segment

- enriching the offer addressed to new and existing customers with health-related products, flavored pasta and premium products (e.g. new forms and shapes, innovative packaging),
- enriching the offer directed to new and existing customers with ready meals, meat, canned meat and soups,
- activities aimed at improving the profitability of the sales channel.

Development of B2B sales channels and Institutions

- development of the category of pasta, meat and vegetable preserves, vegetable and fruit preparations, adapted to the expectations of the customers of that channel,
- establishing cooperation relations with other producers of pastas and ready meals and producers of complementary goods, in order to supplement the offer for the final recipient,
- individualizing the offer and thus increasing competitiveness,
- using the production potential of Stoczek Natura Sp. z o.o. in the scope of service packaging of products and based on new forms of packaging,
- further development of production of semi-finished products based on the production capacity of the plant in Stoczek Łukowski, including sweet stuffing and salty fillings.

Increase in shares and increase of the distribution level on the domestic market

- intensification of marketing activities aimed at the development of the Makarony Polskie brand, as well as rebranding and new definition of Stoczek Natura, Sorenti, Tenczynek and Novelle brands; in 2019, the Group plans to prepare a marketing program,
- development and implementation of cooperation mechanisms with wholesale customers, retail local networks and network trade, especially in the area of international medium and small networks and convenience networks - as a selective distribution strategy, taking into account the specificity of the categories in which the Group operates,
- focusing on fast and efficient building of brand availability in the modern channel and implementation of an effective distribution policy in the traditional channel,
- intensification of trade marketing activities supporting sales and resale of products and building lasting relationships with customers.

Export development

- focusing on European markets, including in particular Ukraine, where the Group systematically develops its cooperation with networks.
- changing the Group's operating model in the Egyptian, Middle East and Africa markets to improve its efficiency - the Group offers products under the Sorenti brand for which the majority of exports are made,
- systematic increase in the number of customers on foreign markets, especially in the European Union,
- intensification of communication with current and potential recipients through the participation of, among others in trade fairs and organization of B2B meetings in target markets,
- acquiring and implementing projects concerning deliveries under the own recipient's brand,
- development of the product offer by offering functional products on foreign markets, e.g.: whole wheat pasta with high fiber content, spelled pasta, buckwheat, vegetable and BIO products and new product categories.

In the opinion of the Management Board of Makarony Polskie SA, the current financial situation of the Company and the Group allows for the implementation of the above-mentioned development directions.

Uncertainty of estimates

The basic assumptions related to the future and other key sources of uncertainties present at the balance sheet date to which the risk of balance sheet assets and liabilities is related in the following fiscal year are presented below

- depreciation rates,
- impairment of assets (including receivables),
- provisions value,
- deferred tax assets (companies recognize a component of assets by virtue of deferred tax based on the assumption that tax profit shall be attained in the future allowing its utilization; deterioration of the obtained tax results in the future could cause that such assumption would be unjustified.
- valuation of assets with an indefinite useful life.

As at the date of these statements, there are no indications of impairment of goodwill and the following brands: Abak, Tenczynek i Deli Susz. The relevant tests, in accordance with the applicable rules, were made as at the end of 31 December 2018.

Assumptions about the future and adopted estimates are consistent with the assumptions and estimates adopted by the Group in the financial statements for 2017.

Selected financial data - Makarony Polskie Group

Selected financial data	31 December 2018	31 December 2017	31 December 2018 (in EUR k)	31 December 2017 (in EUR k)
Revenues from sale of products, services, goods and materials	154 017	144 872	36 096	34 130
Profit (loss) from continued operations	8 345	7 182	1 956	1 692
Gross profit (loss)	7 332	6 106	1 718	1 438
Net profit (loss) from continued operations	5 830	4 802	1 366	1 131
EBIT	8 345	7 182	1 956	1 692
EBITDA (EBIT + depreciation)	14 084	12 105	3 301	2 852
Net cash flows from operating activities	14 037	7 716	3 290	1 818
Net cash flows from investment activities	-15 843	-3 860	-3 713	- 909
Net cash flows from financial activities	710	- 3 317	166	- 781
Total net cash flows	-1 096	539	-257	127
Assets in total	145 791	137 208	33 905	32 896
Liabilities and provisions for liabilities	66 962	61 903	15 573	14 842
Long-term liabilities	21 686	20 432	5 043	4 899
Short-term liabilities	45 276	41 471	10 530	9 943
Equity	78 829	75 305	18 332	18 055
Share capital	27 750	27 750	6 453	6 653
Number of shares (units)	9 250 071	9 250 071	9 250 071	9 250 071
Weighted average number of shares (in units) during the current financial year	9 250 071	9 250 071	9 250 071	9 250 071
Profit/loss per ordinary share (in PLN/EUR) *	0.63	0.52	0.15	0.12
Book value per one share (in PLN/EUR)**	8.52	8.14	1.98	1.95

* Net profit/loss per ordinary share = net result/weighted average number of shares in the period

** Book value per one ordinary share = equity/number of shares at a given balance sheet date

Selected financial data in EUR

Selected financial data for the period 01.01-2018-31 12.2018 and 01.01.2017-31.12.2017 is presented according to the following rules:

- items of the statement of financial position have been converted at the average exchange rate announced by the National Bank of Poland as at the balance sheet date (31 December 2018, EUR 1 = PLN 4.30; 31 December 2017 EUR 1 = PLN 4.1709),
- items of the statement of comprehensive income and statement of cash flows have been converted at the exchange rate being the arithmetic average of the average rates set by the National Bank of Poland effective on the last day of each month 2018 = PLN 4.2669 and at the end of each month of 2017 = PLN 4.2447

The annual financial statements of the Makarony Polskie Group were prepared in accordance with the International Accounting Standards ("IAS") and related interpretations announced in the form of European Commission regulations ("IFRS") using accounting principles consistent with the International Financial Reporting Standards as approved by the European Union (EU) and in accordance with the requirements set out in the Regulation of the Minister of Finance dated 29 March 2018 on the current and periodic information disclosed by issuers of securities and conditions for recognizing as equivalent information required by the laws of a non-member state (Journal of Laws of 2018, item 757).

Consolidated financial statements of comprehensive revenues

Total income consolidated statement

FOR THE PERIOD	Nota	01.01.2018 31.12.2018	01.01.2017- 31.12.2017
Net revenues from sales	**1, 2, 3**	**154 017**	**144 872**
Revenues from sale of other products and services		147 959	138 783
Revenues from sale of goods and materials		6 058	6 089
Own cost	**2.4**	**119 547**	**112 748**
Production costs of products and services sold		114 157	107 024
Value of goods and materials sold		5 390	5 724
Gross profit (loss) on sales		**34 470**	**32 124**
Costs of sale	5	19 705	18 763
General administrative costs	6	6 918	6 671
Other revenues	7	1 562	925
Other costs	8	1 064	433
Profit (loss) from continued operations		**8 345**	**7 182**
Financial incomes	9	22	404
Financial costs	10	1 035	1 480
Gross profit		**7 332**	**6 106**
Income tax - current part	11	1 376	1 233
Income tax - deferred part	12	126	71
Net profit (loss) from continued operations		**5 830**	**4 802**
In this attributable to:		5 830	4 802
Shareholders of the parent Company		5 830	4 802
Non-controlling shares		0	0
Basic net result per share in PLN	13	0.63	0.52
Diluted net result per share in PLN		0.63	0.52
Other total net income/loss		0	0
Total net income		5 830	4 802
Total net income attributable to:		5 830	4 802
Shareholders of the parent Company		5 830	4 802
Non-controlling shares		0	0

Consolidated statement of other total net income - application of hedge accounting

FOR THE PERIOD	01.01.2018-31.12.2018	01.01.2017-31.12.2017
Total net income	**5 830**	**4 802**
Profit/loss due to application of hedge accounting	0	0
Total net income	5 830	4 802

Consolidated statement of the financial position

ASSETS	Nota	01.01.2018-31.12.2018	01.01.2017-31.12.2017
FIXED ASSETS		**101 492**	**91 110**
Tangible fixed assets	14	84 803	74 061
Investment real estate	15	603	643
Goodwill	16	5 949	5 949
Other intangible assets	17	9 945	9 953
Long-term financial assets	18	0	0
Assets for deferred income tax		1	5
Other assets - long-term	24	191	499
CURRENT ASSETS		**44 300**	**46 098**
Inventories	19	18 157	15 624
Short-term receivables	20	25 427	28 513
Receivables from income tax	20	0	29
Borrowings granted	22	0	0
Cash and cash equivalents	23	359	1 454
Other assets - short-term	24	357	478
FIXED ASSETS HELD FOR SALE		0	0
TOTAL ASSETS		**145 791**	**137 208**

LIABILITIES	Nota	01.01.2018-31.12.2018	01.01.2017-31.12.2017
EQUITY		**78 829**	**75 305**
Share capital	**25**	27 750	27 750
Other capital	26	46 095	42 184
Retained profits/losses (profit/loss from previous years)	27	-846	569
Net profit/loss		5 830	4 802
LONG-TERM LIABILITIES		**21 686**	**20 432**

Provision for deferred income tax	12	3 569	3 447
Long-term bank loans and borrowings	28	10 541	8 221
Provision for retirement and similar benefits (long-term)	30	285	190
Revenue of future periods - long-term	33	6 062	6 538
Long-term financial liabilities	31	1 229	2 036
SHORT-TERM LIABILITIES		**45 276**	**41 471**
Short-term bank loans and borrowings	28	14 170	12 272
Short-term financial liabilities	31	944	826
Other short-term liabilities	32	27 991	26 800
Income tax liabilities	32	220	65
Revenue from future periods - short-term	33	909	553
Provision for retirement and similar benefits (short-term)	30	1 042	955
Other short-term provisions	30	0	0
TOTAL LIABILITIES		**66 962**	**61 903**
TOTAL LIABILITIES		**145 791**	**137 208**

Consolidated statement from cash flows - indirect method

FOR THE PERIOD	01.01.2018-31.12.2018	01.01.2017-31.12.2017
Cash flows from operating activities		
Profit before tax	**7 332**	**6 106**
Adjustments by items:	**6 705**	**1 610**
Depreciation	5 739	4 923
Profits/losses on exchange differences	-1	5
Interest expense and income	731	860
Revenues from dividends	0	0
Profit/loss from investing activities	298	- 52
Change in provisions	182	932
Change in inventories	- 2 533	- 2 609
Change in receivables	4 654	- 5 044
Change in liabilities and accruals	- 661	3 371
Paid/refunded corporate income tax	- 1 191	- 1 212
Other adjustments	- 513	436
Cash flows from net operating activities	**14 037**	**7 716**
Cash flows from investment activities	0	0
Proceeds from the sale of fixed assets and intangible assets	330	158
Proceeds from the sale of financial assets	0	0
Expenses for the purchase of property, plant and equipment and intangible assets	- 16 173	- 4 018
Expenses for the acquisition of subsidiaries and affiliates	0	0
Interest income	0	0
Proceeds from loans granted	0	0
Borrowings granted	0	0
Others	0	0
Net cash flows from investing activities	**- 15 843**	**- 3 860**

Cash flows from financial activities		
Proceeds from loans and borrowings	7 919	6 117
Repayment of loans and borrowings	- 3 701	- 5 200
Payment of liabilities under financial lease agreements	- 854	- 1 067
Interest paid	- 731	- 854
Dividend paid to shareholders	- 2 313	- 2 313
Expenses on acquisition of financial assets	0	0
Other financial revenues	390	0
Net cash flows from financial activities	**710**	**- 3 317**
Increase/decrease in cash and cash equivalents	**- 1 096**	**539**
Cash, cash equivalents and overdrafts at the beginning of the period	1 454	920
Foreign exchange gains/losses on the valuation of cash, cash equivalents and overdrafts	1	- 5
Cash, cash equivalents and overdrafts at the end of the period	**359**	**1 454**

Report on changes in consolidated equity

For the period from 1 January 2018 to 31 December 2018:

	Share capital	Supplementary capital	Current year result	Profit/loss from previous years	Total equity
Balance as at 1 January 2018	27 750	42 184	0	5 371	75 305
Distribution of profit/loss coverage	0	3 911	0	- 3 911	0
Reversal of unrealized margin from previous years	0	0	0	7	7
Dividend payment	0	0	0	- 2 313	-2 313
Other total income	0	0	0	0	0
Net result in 2018	0	0	5 830	0	5 830
Balance as at 31 December 2018	27 750	46 095	5 830	- 846	78 829

For the period from 1 January 2017 to 31 December 2017

	Share capital	Supplementary capital	Current year result	Profit/loss from previous years	Total equity
Balance as at 1 January 2017	27 750	39 505	0	5 561	72 816
Distribution of profit/loss coverage	0	2 679	0	- 2 679	0
Other total income	0	0	0	0	0
Dividend payment	0	0	0	- 2 313	-2 313
Net result in 2017	0	0	4 802	0	4 802
Balance as at 31 December 2017	27 750	42 184	4 802	569	75 305

Additional notes

Notes to the statement of comprehensive income

Note No. 1
Sales revenues

For management purposes, the Group is divided into business units based on the products and services offered.

	For the period from 01.01 to 31.12.2018	For the period from 01.01 to 31.12.2017
Revenues from sales of products	140 657	134 838
Proceeds from the sale of services, including:	7 302	3 945
- from Lease and storage	4 947	2 636
- service production	2 355	1 292
- other services	0	17
Proceeds from the sale of materials	3 667	3 668
revenues from sale of goods	2 391	2 421
Total	**154 017**	**144 872**

The Makarony Polskie Group distinguishes the product groups shown in the table below

(in PLN k)	For the period from 01.01 to 31.12.2018	For the period from 01.01 to 31.12.2017
Pasta	101 635	101 255
Meat and vegetable preserves	32 410	28 880
Vegetable preserves and stuffing	2 832	2 548
Fruit preserves	7 767	4 574
Other	9 373	7 615
Total	154 017	144 872

The sales revenues of the Makarony Polskie Group in 2018 amounted to PLN 154.0 m and were by approx. PLN 9.1 m higher than in the corresponding period of 2017.

Sales of meat and vegetable products increased in the analyzed period by approx. PLN 3.5 m to the amount of over PLN 32.4 m. An increase of approx. 12.2% (2018 vs. 2017) was the result of extended cooperation with B2B contractors and institutions as well as the

development of the product offer for the private label channel. In subsequent periods further growth is planned in this category, among others by introducing new market features.

Another segment in which a high dynamics of changes was noted is the segment of processed fruit. Sales of fruit products in the analyzed period amounted to nearly PLN 7.8 m and were higher by PLN 3.2 m, i.e. 69.8% compared to 2017, which was caused by the acquisition of new contracts for production under network brands, the development of own brands for the delivery of jams and the introduction from the beginning of 2018 to the sales offer of dried fruit.

The segment of vegetable preserves and stuffing increased in the analyzed period by PLN 0.3 m to the amount of nearly PLN 2.8 m. The increase was the result of sales development in the stuffing area.

The value of sales in the pasta category increased by PLN 0.4 m to PLN 101.6 m in 2018 (the main changes were caused by obtaining a contract in the B2B channel, the development of sales in exports, with a drop in sales for the institution).

Note No. 2

Basic information about operating segments

For the period from 01.01 to 31.12.2018	Pasta	Meat and vegetable preserves	Vegetable preserves	Fruit preserves	Other	Total segments
Total segment revenues	**101 635**	**32 410**	**2 832**	**7 767**	**9 373**	**154 017**
Sales to external customers	101 635	32 410	2 832	7 767	9 373	154 017
Sales between segments	0	0	0	0	0	0
Segment costs	78 599	27 764	2 096	6 594	4 494	119 547
Profits or losses of segments	**23 036**	**4 646**	**736**	**1 173**	**4 879**	**34 470**
Costs of sale	0	0	0	0	0	- 19 705
Management costs	0	0	0	0	0	- 6 918
Other revenues	0	0	0	0	0	1 562
Other costs	0	0	0	0	0	- 1 064
Financial incomes	0	0	0	0	0	22
Financial costs	0	0	0	0	0	- 1 035
Elimination of profit/loss between segments	0	0	0	0	0	0
Other profit or loss	0	0	0	0	0	0
Unallocated amounts	0	0	0	0	0	0

Gross profit/loss from continued operation	0	0	0	0	0	7 332

For the period from 01.01 to 31.12.2017	Pasta	Meat and vegetable preserves	Vegetable preserves	Fruit preserves	Other	Total segments
Total segment revenues	**101 255**	**28 880**	**2 548**	**4 574**	**7 615**	**144 872**
Sales to external customers	101 255	28 880	2 548	4 574	7 615	144 872
Sales between segments	0	0	0	0	0	0
Segment costs	77 617	23 808	2 082	4 044	5 197	112 748
Profits or losses of segments	**23 638**	**5 072**	**466**	**530**	**2 418**	**32 124**
Costs of sale	0	0	0	0	0	- 18 763
Management costs	0	0	0	0	0	- 6 671
Other revenues	0	0	0	0	0	925
Other costs	0	0	0	0	0	- 433
Financial incomes	0	0	0	0	0	404
Financial costs	0	0	0	0	0	- 1 480
Elimination of profit/loss between segments	0	0	0	0	0	0
Other profit or loss	0	0	0	0	0	0
Unallocated amounts	0	0	0	0	0	0
Gross profit/loss from continued operation	0	0	0	0	0	6 106

The Group has applied IFRS 8 "Operating Segments". In accordance with the requirements of IFRS 8, operating segments should be identified based on internal reports on these elements, which are regularly verified by persons deciding on the allocation of resources to a given segment and assessing its financial results. In terms of assets and liabilities, the main bodies responsible for making operational decisions do not analyze data cross-sectioned into operating segments.

Note No. 3

Revenues from sale of products, services, goods and materials - geographical structure

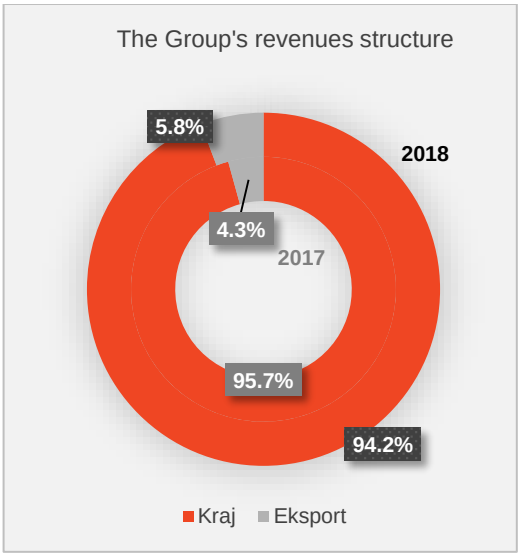
	For the period from 01.01 to 31.12.2018	For the period from 01.01 to 31.12.2017
Country	145 134	138 146
Exports, including:	8 883	6 726
- European Union countries	1 716	2 089

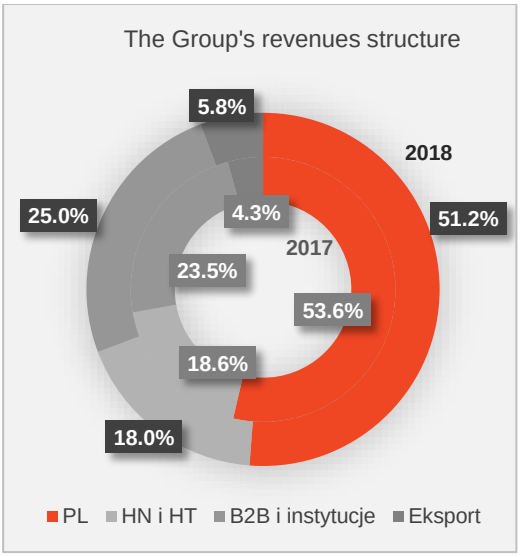
- other countries	7 167	4 637
Total	**154 017**	**144 872**

SALES REVENUES BROKEN DOWN INTO OUTLETS

The sales markets of the Makarony Polskie Group can be divided into the domestic market (including private label, traditional trade, modern trade and B2B and institutions) as well as exports (including sales through domestic intermediaries). In the Like-for-like (LFL) approach, the Group achieved the following sales revenues in 2018:

in PLN k	2018	2017	r/r
Incomes on sale	154 017	144 872	+6.3%





Private label

The largest share in the Group's revenues (51.2%) had a private label channel (PL) offering products under own brands of domestic and foreign networks (including sales to Lidl contractor operating within one Group in Europe).

PL (in PLN k)	2018	2017	r/r
Incomes on sale	78 903	77 685	2%

In the private label sector, the Makarony Polskie Group is a leading supplier of rolled and pressed pasta and a major producer of meat and vegetable, vegetable and fruit preserves on the domestic market.

As part of the B2B channel, the Group develops mainly sales of pastas and semi-finished products for bakery and confectionery, as well as service activities consisting in filling jars and cans for customers as a subcontractor.

Sales in this channel increased by 2.0% in 2018 vs. 2017. The increase in sales revenues resulted from the introduction of a new assortment for permanent listing, while maintaining the current offer, as well as obtaining new contracts for the sale of jams.

The main recipients in this channel are such networks as: Jeronimo Dystrybucja Polska, Lidl, Netto, Auchan, Aldi, Żabka, Carrefour, Intermarche, Stokrotka, GK Specjał, Lewiatan.

In 2018, only two customers exceeded the threshold of 10% share in consolidated sales revenues (including brand products and private label). Those are Jeronimo Dystrybucja Polska with a share of approximately 23.7% and the Lidl Group with a share of approximately 10.3%. The Group's companies are in no formal way connected with the operator of this network, and the cooperation takes place on a partnership basis and is beneficial for the Makarony Polskie Group.

Modern trade and traditional trade

The next material revenue for the Group at 18.0%, achieved on the domestic market, is the sale of the Group's brands (Makarony Polskie, Sorenti, Stoczek, Tenczynek, Męska Rzecz, Novelle) in the modern trade channels (HN) and traditional trade (HT):

HN i HT (in PLN k)	2018	2017	r/r
Incomes on sale	27 736	26 943	3%

The increase in sales value was mainly due to:

- consistent and effective implementation of a long-term sales development strategy,
- introduction of a new pricing policy, verification and renegotiation of contracts,
- conclusion of new contracts.

In 2019, the Group plans to develop cooperation and acquire new, previously unsupported foreign, domestic and local networks. In addition, in cooperation with companies offering external sales forces, the Group aims to improve service among current customers and numbers by acquiring new customers.

B2B and Institutions

B2B and Institutions accounted for approx. 25.0% in 2018, in total revenues of the Group:

B2B and Institutions (in PLN k)	2018	2017	r/r

Incomes on sale	38 494	34 015	13.2%

Sales in the B2B distribution channel and Institutions in 2018 amounted to nearly PLN 38.5 m and were higher by nearly PLN 4.5 m (i.e. 13.2%) compared to 2017.

As part of the B2B channel, the Group sells pastas and develops semi-finished products (sweet fillings, salty fillings) for the bakery and confectionery industry.

The increase in sales results from the expansion of cooperation with existing contractors and the acquisition of a new customer in the B2B channel.

The relatively new form of the Group's activity, which is the production of sweet fillings and salt fillings, has been positively received by the market from the very beginning. Stoczek Natura Sp. z o.o. invested in a modern machine park for packaging fillings and stuffing. The production line with the thermoforming function allows to offer those products in a very good quality formulation, with an extended shelf life. The group is still working on acquiring new prospective customers in this area.

Export

Exports in the Group's total revenues for 2018 accounted for 5.8%:

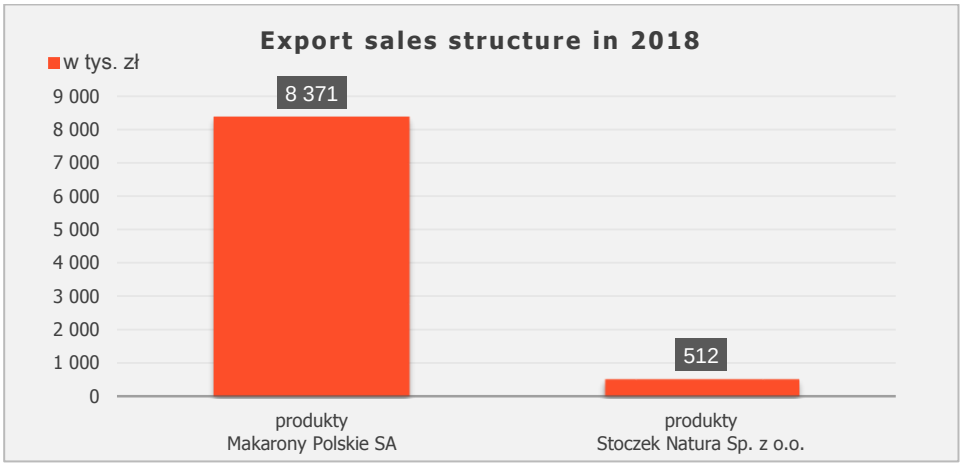
Eksport (in PLN k)	2018	2017	r/r
Incomes on sale	8 883	6 229	42.6%

The export sale of the Group in 2018 amounted to almost PLN 9.0 m (performed with its own sales team and intermediaries). It was a result by 42.6% higher than the one reached in 2017. The main export market is Ukraine. The Group is currently implementing a long-term strategy to acquire new markets. The established direct relations with the final recipients positively translate into the level of the realized margin.

The chart below presents the structure of export sales divided into products produced by the Group's Production Plants in Rzeszów and Częstochowa (pastas) and the Production Plant in Stoczek Łukowski (Stoczek's products):

In 2018, the Makarony Polskie Group operated mainly on the European and African, Asian and the US markets.

In subsequent years, the Group plans to focus its activities on the markets of North Africa and Ukraine



In 2018, the Makarony Polskie Group operated mainly on European markets (Ukraine, Norway, Slovakia, Germany, Serbia) and to a lesser extent on African (Egypt, South Africa), Asian (Hong Kong, Iraq) and the USA markets.

In 2016-2018, the Company, together with other producers gathered in the Polish Chamber of Pasta (PIM), implemented the "Pasta of Europe" program conducted by PIM. The purpose of the program was to promote pasta in Ukraine and the People's Republic of China. Ukrainian and Chinese recipients (consumers, distributors) were educated about the health properties of pasta, as well as the diversity and high quality of pasta products from European Union countries, including Poland (TV, press and websites ads were broadcast, also various types of promotional campaigns during fairs and at points of sale). The implementation of the Program contributed to the development of the sales market and the increase in the volume of sales of pasta produced in the European Union. The producers gathered around the program created an informal sales group. In 2018, the export sales of the Company on the Ukrainian market increased by approx. 50% and will continue also in the following years.

In subsequent years, the Group plans to focus its activities on the European, mainly Ukrainian. markets. To achieve the above objectives, the Group acquired partners on local markets, who support the Group in the further development of sales in those markets.



Note No. 4

Costs of employee benefits and depreciation costs

Employee benefits costs	For the period from 01.01 to 31.12.2018	For the period from 01.01 to 31.12.2017
Payroll costs	11 232	11 065
Social security costs	1 872	1 871
Costs of other employee benefits, including:	513	812
- costs of benefits due to termination of employment	10	128
- costs of pension benefits	46	33
- costs of equivalents for unused leave	95	231
- other benefits	362	420
Total	**13 617**	**13 748**

The Employee benefits can be divided to the following categories:

– short-term benefits that include wages and salaries, social security contributions, paid absences and non-cash benefits. The costs of short-term benefits are recognized in the statement of comprehensive income on an ongoing basis in the period to which they relate. At the end of the reporting period, the expected undiscounted value of short-term benefits for a given financial period remaining to be paid, is recognized by the Group as an element of passive deferral costs;

– post-employment benefits - as part of this type of benefits, the Group pays severance pay to employees.

A provision is created for future payment of retirement benefits. This provision is periodically verified by an independent actuary with the application of IFRS.

Depreciation costs	For the period from 01.01 to 31.12.2018	For the period from 01.01 to 31.12.2017
Depreciation	5 739	4 923

Note No. 5

Costs of sale

	For the period from 01.01 to 31.12.2018	For the period from 01.01 to 31.12.2017
Depreciation	548	549
Consumption of materials and energy	487	437

Costs of external services	12 749	12 087
Taxes and fees	267	335
Wages and salaries	3 255	3 385
Employee benefits	634	641
Other costs	1 765	1 329
Total	**19 705**	**18 763**

Note No. 6

Management costs

	For the period from 01.01 to 31.12.2018	For the period from 01.01 to 31.12.2017
Depreciation	337	415
Consumption of materials and energy	114	118
Costs of external services	2 132	1 500
Taxes and fees	206	265
Wages and salaries	3 091	3 328
Employee benefits	438	485
Other costs	600	560
Total	**6 918**	**6 671**

Note No. 7

Other revenues

	For the period from 01.01 to 31.12.2018	For the period from 01.01 to 31.12.2017
Government subsidies	546	511
Profit on the sale of property, plant and equipment	0	52
Release of other provisions and reversal of impairment losses	0	0
Compensation and complaints	86	53
Sales of scrap and waste	87	88
Return of court and bailiff fees	0	8
- Inventory surplus	146	52
Return of overpayment - insurance premiums	50	21
Accrued income from Return of eligible costs - subsidy	99	67
Liabilities written down	6	4
Reversal of impairment losses for inventories	0	21
Reversal of impairment losses on property, plant and equipment	0	0
Leasing liabilities	0	12

Sales discounts	22	35
Investment property modernization	520	0
Other	0	1
Total	**1 562**	**925**

Other revenues and unrelated income are classified to other operating income directly with the Group's operating activities. This category includes received subsidies, profits from the sale of property, plant and equipment, compensation received related to the reimbursement of court costs, overpaid tax liabilities, with the exception of corporate income tax and compensation received for losses in property that was insured.

Other receivables also include reversals of impairment losses on receivables and inventories as well as impairment losses on property, plant and equipment and inventory surpluses on current assets.

Note No. 8
Other costs

	For the period from 01.01 to 31.12.2018	For the period from 01.01 to 31.12.2017
Donations	25	13
Loss on the sale of fixed assets	298	0
Penalties and fines	83	23
Shortages in current assets	48	59
Write-down of inventories	44	0
Costs of court and bailiff proceedings	3	0
Liquidation of damaged and overdue stocks	328	267
Advertising sponsorship	65	42
Write-down for receivables, other write-downs and provisions	95	0
Costs of repairs covered by insurance	1	12
Reversal of revenue earned in 2017 from co-financing from the EU subsidy	67	0
Write-downs - remitted unrecoverable	5	9
Write-downs on investment	0	4
Other	2	4
Total	**1 064**	**433**

Other operating costs include costs and losses not directly related to the Group's operating activities. This category includes losses on the sale of property, plant and equipment, donations made in kind and in cash to other entities, including public benefit purpose entities and effects resulting from guarantees and sureties granted to other entities.

Other costs also include e,g., costs of impairment losses on receivables and inventories as well as impairment losses on property, plant and equipment and non-culpable shortages on current assets.

Note No. 9
Financial incomes

	For the period from 01.01 to 31.12.2018	For the period from 01.01 to 31.12.2017
Interest revenue, including:	22	242
- interest on bank deposits	0	0
- interest on loans	0	0
- interest on receivables	22	242
Foreign exchange profits	0	162
Update of the value of short-term investments	0	0
Other financial income	0	0
Profit from disposal of financial assets	0	0
Total	**22**	**404**

Financial revenues include income from dividends received, interest on investing and investment activities in various forms of financial instruments. Financial activities also include profits due to exchange differences.

Noty nr 10
Financial costs

	For the period from 01.01 to 31.12.2018	For the period from 01.01 to 31.12.2017
Interest expenses, including:	711	849
- bank loans	512	548
- factoring and leasing costs	180	298
- interest on liabilities	1	3

- budget interest	18	0
Other financial costs, including:	324	632
- loss due to negative exchange rate differences	69	0
- guarantees, sureties	67	23
- banking and factoring fees and commissions	188	176
- write-down of investment properties	0	432
Total	**1 035**	**1 480**

Financial costs are classified as costs due to the use of external sources of financing, interest payable under financial leasing contracts which the Group is a party to and other financial costs. Financial activities also include losses due to exchange rate differences and write-downs on investment properties.

Note No. 11
Income tax

	For the period from 01.01 to 31.12.2018	For the period from 01.01 to 31.12.2017
Current income tax	1 376	1 233
Deferred income tax	126	71
Tax burden/recognition disclosed in the statement of comprehensive income, including:	1,502	1 304
- assigned to continued operations	1,502	1 304

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

	For the period from 01.01 to 31.12.2018	For the period from 01.01 to 31.12.2017
Gross financial result before tax, from continuing operations	7 332	6 106
Profit/loss before tax on discontinued operations	0	0
Gross financial result before tax	7 332	6 106
Tax rate (in %)	19	19
- tax costs which do not constitute balance sheet costs (-)	- 1 202	-1 880
balance sheet costs not included in tax costs (+)	2 902	3 545

- revenues not constituting tax revenues (-)	- 1 157	- 709
- tax revenue not constituting balance sheet revenue (+)	57	57
- received subsidies	0	0
Tax base/tax loss of the Group	7 932	7 119
Deductions from income:		
- tax shield 2012- Makarony Polskie SA	0	- 49
- tax shield 2012- Stoczek Natura Sp. z o.o.	0	- 629
- tax shield 2014-Stoczek Natura Sp. z o.o.	-24	- 23
- tax shield 2015-Stoczek Natura Sp. z o. o	- 362	- 362
- tax shield 2016-Stoczek Natura Sp. z o. o	- 442	- 126
Income for taxation of the Group	7 104	5 930
Tax base	7 241	6 488
Income tax shown in the statement of comprehensive income - current part	1 376	1 233

The Group is not a tax group of companies, as a result of which the income of the Group for taxation is reduced by presentation of the tax shields of the Parent Company and Subsidiaries.

Note No. 12

Deferred income tax

	Report on the financial situation as at 31.12.2018	Report on the financial situation as at 31.12.2017	Statement of total income for the period from 01.01 to 31.12.2018	Statement of total income for the period from 01.01 to 31.12.2017
Provision for deferred income tax				
- difference between the carrying amount and tax net value of fixed assets	3 614	3 709	- 95	75
- foreign exchange differences	4	10	- 6	7
- difference between the commitment under leasing and the net value of fixed assets	183	156	27	44
- accrued interest	0	13	-13	7
- valuation of investment property	160	62	98	62
Gross provision for deferred income tax	3 961	3 950	11	195
Assets for deferred income tax				
- remuneration paid after the balance sheet date	12	9	3	- 3
- - social security contributions	53	51	1	4
- pension benefits and similar	249	218	32	178
- interest on liabilities	0	8	- 8	8

- foreign exchange differences	4	5	- 1	- 1
- deductible tax loss	60	217	-157	-58
- overdue liabilities as at the balance sheet date	0	0	0	0
- inventory write-downs	8	0	8	- 4
- unrealized margin of the GROUP	7	0	7	0
- write-offs of receivables	0	0	0	0
Deferred income tax assets recognized in the statement of financial position	393	508	- 115	124
Deferred tax liability/recognition	- 3 568	- 3 442	126	71

ASSETS FOR DEFERRED INCOME TAX

	As at 31.12.2018	As at 31.12.2017
- Assets - deductible tax loss	60	217
Deferred income tax assets not included in the balance sheet - tax loss of MP Trade	132	106

The current tax charge is calculated on the basis of the applicable tax laws. The application of these provisions varies the tax profit (loss) from net accounting profit (loss) before tax, due to the exclusion of non-taxable revenues and the costs of non-deductible expenses and costs and revenues that will never be subject to tax. The tax charges are calculated based on the tax rates applicable in a given financial year. currently 19% - provisions which assume differentiation of tax rates for future periods not applicable to the Group companies.

In terms of income tax, the Group is subject to general regulations in this area. The Group is not a tax Group, as well as does not operate in a special economic zone, which would differentiate the rules for determining tax charges in relation to general provisions in this respect. The tax year and the balance sheet year coincide with the calendar year.

Note No. 13

Data regarding the financial result and shares that were used to calculate basic and diluted earnings per share

	For the period from 01.01 to 31.12.2018	For the period from 01.01 to 31.12.2017
Net profit/loss per share	0.63	0.52
Book value per one share in PLN	8.52	8.14

	For the period from 01.01 to 31.12.2018	For the period from 01.01 to 31.12.2017
Net profit/loss from continuing operations attributable to shareholders of the parent	5 830	4 802
Profit/loss on discontinued operations attributable to shareholders of the parent	0	0
Net profit/loss attributable to equity holders of the parent	5 830	4 802
Net profit/loss attributable to ordinary shareholders applied to calculate diluted profit/loss per share	not applicable	not applicable

	For the period from 01.01 to 31.12.2018	For the period from 01.01 to 31.12.2017
Weighted average number of issued ordinary shares applied to calculate basic profit/loss per share	9 250 071	9 250 071
Impact of dilution	not applicable	not applicable
Adjusted weighted average number of ordinary shares applied to calculate diluted profit/loss per share	not applicable	not applicable

Net profit falling per one share is calculated by dividing the net profit for the period falling to normal shareholder of the mother company by average weighted number of issued common shares present in the period.

Diluted profit falling per one share is calculated by dividing net profit in the period falling for normal shareholders of the parent company (after deducting interests on the amortizable preferred shares exchanged to common shares) per average weighted number of issued common shares present in the period (corrected by the influence of dilutive options and diluting, amortizable preferred shares exchanged to common shares). In the parent Company in 2018, as well as until the date of these statements, there were no factors diluting the share capital.

Book value per share is the quotient of equity by the number of shares at a given balance sheet date.

Explanatory notes to the statement of financial position

Note No. 14
Tangible fixed assets

Gross tangible fixed assets:	31.12.2018	31.12.2017
Land, buildings and structures	51 478	46 535
Machines and equipment	71 642	70 829
Means of transportation	3 650	3 537

Fixed assets in progress	16 792	6 859
Other	2 666	2 606
Gross value at the end of the period	**146 228**	**130 366**

Amortizations and write-downs	31.12.2018	31.12.2017
Land, buildings and structures	18 447	17 283
Machines and equipment	38 581	34 820
Means of transportation	2 424	2 223
Fixed assets in progress	0	0
Other	1 973	1 979
Value of amortization and write-downs	**61 425**	**56 305**

Net tangible fixed assets:	31.12.2018	31.12.2017
Land, buildings and structures	33 031	29 252
Machines and equipment	33 061	36 009
Means of transportation	1 226	1 314
Fixed assets in progress	16 792	6 859
Other	693	627
Net value at the end of period	**84 803**	**74 061**

CHANGES IN FIXED ASSETS

For the period from 1 January 2018 to 31 December 2018:

	Land, buildings	Machines and devices	Means of transport	Fixed assets in progress	Other	Total
Gross value at the beginning of the period	46 535	70 829	3 537	6 859	2 606	130 366
Increases	4 943	1 684	340	16 353	177	23 497
- purchase	4 384	1 684	175	16 353	177	22 773
- other	559	0	165	0	0	724
Decreases	0	871	227	6 420	117	7 636
- sale	0	738	154	0	0	893
- other	0	133	73	6 420	117	6 743
Gross value at the end of the period	51 478	71 642	3 650	16 792	2 666	146 228
Amortization value at the beginning of the period	15 750	34 679	2 223	0	1 979	54 631
Increases	1 229	4 034	428	0	111	5 802
Decreases	0	243	227	0	117	587
Amortization value at the end of the period	16 979	38 470	2 424	0	1 973	59 846

Write-down at the beginning of the period	1 533	141	0	0	0	1 674
Write-down at the end of period	1 468	111	0	0	0	1 579
Value including amortization and impairment write-down at the end of the period	18 447	38 581	2 424	0	1 973	61 425
Net value at the end of period	33 031	33 061	1 226	16 792	693	84 803

For the period from 1 January 2017 to 31 December 2017

	Land, buildings	Machines and devices	Means of transport	Fixed assets in progress	Other	Total
Gross value at the beginning of the period	46 365	67 856	3 695	5 232	2 389	125 537
Increases	211	3 096	298	3 553	225	7 383
- purchase	51	1 553	41	3 553	225	5 423
- other	160	1 543	257	0	0	1 960
Decreases	41	123	456	1 926	7	2 553
- sale	41	118	414	0	0	573
- other	0	5	42	1 926	7	1 980
Gross value at the end of the period	46 535	70 829	3 537	6 859	2 607	130 366
Amortization value at the beginning of the period	14 552	31 570	2 224	0	1 902	50 248
Increases	1 203	3 207	401	0	84	4 895
Decreases	5	98	402	0	7	512
Amortization value at the end of the period	15 750	34 679	2 223	0	1 981	54 631
Write-down at the beginning of the period	1 598	171	0	0	0	1 769
Write-down at the end of period	1 533	141	0	0	0	1 674
Value including amortization and impairment write-down at the end of the period	17 283	34 820	2 223	0	1 979	56 305
Net value at the end of period	29 252	36 009	1 315	6 859	627	74 061

Impairment write-downs are taken into account in other expenses in the statement of comprehensive income. In 2018, the Group did not make write-downs of property, plant and equipment. In proportion to the period of use, the Group dissolves write-downs updating the value of fixed assets made at the time of purchase of shares in Stoczek (2007).

As of 31 December 2018, the Management Board of Makarony Polskie SA decided to change the use of a part of the usable area of the investment property (land) for the purposes of its

own operations. Due to the above, the Company transferred some of the real estate to non-current assets.
Fixed assets under construction, are presented in the financial statements at the production cost less recognized impairment losses.

The production cost includes fees and, for the relevant assets, costs of external financing capitalized in accordance with IAS 23. The costs of external financing capitalized and included in fixed assets under construction in 2018 amounted to PLN 198 k (interest and commission costs) The Group estimates the borrowing costs according to the actual interest rate for a given financial liability (loan).

The Group has in its use machines, equipment and means of transport under leasing agreements. The carrying amount of property, plant and equipment used under finance lease agreements as at 31 December 2018 was PLN 3,135 k PLN as at 31 December 2017 amounted to PLN 3,682 k.

As at 31 December 2018 in the subsidiary Stoczek Natura sp. o.o. the value of registered pledges on machines and equipment was PLN3,000 k, including:

- collateral for BGK's credit agreement - PLN 3,000 k

The establishment of registered pledges on fixed assets results from the obligations included in the credit agreements described in note No. 28.

The Company estimates the value of liabilities resulting from contracts signed for the supply of fixed assets and construction works at the level of PLN 15.2 m as at 31 December 2018.

MORTGAGES ESTABLISHED OR IN THE COURSE OF ESTABLISHING ON THE REAL ESTATE OF COMPANIES FROM THE GROUP

Real Estate	Balance as at 31.12.2017	Creditor name	title of liability	Company's liability
Real Estates in Rzeszów KW RZ1Z/00076860/5	PLN 33 000 k	BZ WBK SA	contractual joint mortgage	Overdraft in the amount of PLN 5,000 k concluded by Makarony Polskie SA
				Overdraft in the amount of PLN 5,000 k concluded by Makarony Polskie SA

Real Estates in Płock KW PL1P/00094893/6				Revolving credit agreement in the amount of PLN 3,000 k concluded by Macaroon Polskie SA Framework contract on the method of concluding and settling transactions
Real Estates in Rzeszów KW RZ1Z/00076860/5 Real Estates in Płock KW PL1P/00094893/6	PLN 12 000 k	BZ WBK SA	contractual joint mortgage	EU investment credit agreement amounting to PLN 8,000 k concluded by Makarony Polskie SA
Real Estates in Rzeszów KW RZ1Z/00076860/5 Real Estates in Płock KW PL1P/00094893/6	PLN 18 182 k	BZ WBK SA	contractual joint mortgage	EU investment loan agreement amounting to PLN 12,121 k concluded by Makarony Polskie SA
Real Estates in Rzeszów KW RZ1Z/00076860/5 Real Estates in Płock KW PL1P/00094893/6	PLN 2 700 k	BZ WBK SA	contractual joint mortgage	Revolving credit agreement amounting to PLN 1,800 k concluded by Makarony Polskie SA
Real Estates in Rzeszów KW RZ1Z/00076860/5 Real Estates in Płock KW PL1P/00094893/6	PLN 373 k	BZ WBK SA	contractual joint mortgage	Contract for granting a bank guarantee of PLN 249 k concluded by Makarony Polskie SA
Real Estates in Rzeszów KW RZ1Z/00076860/5 Real Estates in Płock KW PL1P/00094893/6	PLN 1 517 k	BZ WBK SA	contractual joint mortgage	Contract for granting a bank guarantee of PLN 1 011 k concluded by Makarony Polskie SA
Real estate in Częstochowa KW CZ1C/00111425/8 Real Estates in Stoczek Łukowski LU1U/00022979/2	PLN 16 500 k	Bank Gospodarstwa Krajowego	contractual joint mortgage	Overdraft in the amount of PLN 6,000 k concluded by Makarony Polskie SA Non-revolving overdraft in the amount of PLN 5,000 k concluded by Makarony Polskie SA

Real Estates in Stoczek Łukowski LU1U/00022979/2	PLN 4 500 k	Bank Gospodarstwa Krajowego	mortgage	Overdraft in the amount of PLN 3,000 k concluded by Makarony Polskie Stoczek Natura Sp. z o.o
Real Estates in Stoczek Łukowski LU1U/00022979/2	PLN 2 323 k	Bank Gospodarstwa Krajowego	mortgage	Contract for a guarantee in the amount of PLN 1 549 k concluded by Stoczek Natura Sp. z o.o.
Real Estates in Stoczek Łukowski LU1U/00022979/2	PLN 756 k	Bank Gospodarstwa Krajowego	mortgage	Agreement for a guarantee of PLN 504 k concluded by Stoczek Natura Sp. z o.o.

Note No. 15
Investment real estate

	31.12.2018	31.12.2017
Investment real estate in Rzeszów and in Stoczek Łukowski the beginning of the period	643	1 235
Increases	519	0
Acquisition	0	0
Others	519	0
Decreases	559	592
Sale	0	0
Others	559	592
Value at the end of the period	603	643

The value of the investment property in Makarony Polskie is updated to fair value based on the appraisal reports prepared by independent appraisers. The difference in fluctuations in fair value is recognized by the Company in the profit and loss account. In 2018, the Company increased the value of the investment property based on a valuation prepared by an independent appraiser. Increase in the value of the property according to the test's value of PLN 520,k.

In connection with the change of land use, the Management Board adopted a resolution. The Management Board of the Company decided to change the use of a part of the usable area of the investment property for the needs of its own operations.

Due to the above, the Company has transferred a part of the property worth PLN 559 k to fixed assets.

Fair value measurements are categorized according to three levels depending on the extent to which input data for fair value measurements are observable and the importance of input data to be measured at fair value as a whole. These levels are shaped as follows:

• Level 1: input data are quoted prices (unadjusted) from active markets for identical assets or liabilities to which the entity has access on the day of the valuation.

• Level 2: input data is data other than quoted prices included in Level 1 that are observable for an asset or obligations, directly or indirectly.

• Level 3: input data is unobservable data for the valuation of an asset or liability.

The Company did not change the methodology and level of valuation categorization (level 3).

Note No. 16
Goodwill

For the period from 01.01.20178 to 31.12.2018	Goodwill
Gross value at the beginning of the period	**5 949**
Increases	0
Decreases	0
Gross value at the end of the period	**5 949**
Impairment loss at the beginning of the period	0
Recognition in the period of impairment loss	0
Reversal in the period of impairment loss	0
Impairment loss at the end of the period	0
Net value at the end of period	**5 949**

For the period from 01.01.2017 to 31.12.2017	Goodwill
Gross value at the beginning of the period	**5 949**
Increases	0
Decreases	0
Gross value at the end of the period	**5 949**
Impairment loss at the beginning of the period	0
Recognition in the period of impairment loss	0
Reversal in the period of impairment loss	0
Impairment loss at the end of the period	0
Net value at the end of period	**5 949**

Goodwill in the amount of PLN 5,949 k included in assets reflects the difference between the purchase price paid for 100% of shares in Stoczek Natura Sp. z o.o., and the fair value of the net assets of that Company as at 1 June 2007, i.e. as at the date of the transfer of share ownership.

The goodwill by virtue of taking over an economic entity is initially posted according to the purchase price representing the surplus of costs of merging over the share of the entity taking over in fair value net of possible to be identified assets, liabilities and conditional liabilities. After the initial posting, goodwill is disclosed according to the purchase price reduced by any cumulated write downs by virtue of value loss. The goodwill is not subject to amortization.

Due to the establishment of MP Trade Sp. z o.o. in 2015, the Group recognized a positive value between the purchase value of 100% of shares and expenses incurred on taking up shares. The goodwill amounts to PLN 3 k, and is not subject to amortization.

At the end of 2018, obligatory tests for the goodwill impairment were performed.

The Management Board of the Company assessed that there are no premises indicating the possibility of the loss of goodwill.

Note No. 17
Other intangible assets

CHANGES IN INTANGIBLE ASSETS

For the period from 1 January 2018 to 31 December 2018:

	Other intangible assets				
	Brand value	**Patents, trademarks, development works**	**Computer software**	**Other**	**Total**
Gross value at the beginning of the period	9 087	1 055	1 413	439	11 994
Increases	0	0	0	25	25
- purchase	0	0	0	25	25
Decrease	0	0	42	0	42
Gross value at the end of the period	9 087	1 055	1 371	464	11 977
Amortization value at the beginning of the period	0	250	1 362	429	2 041
increases	0	9	10	13	33
decreases	0	0	42	0	42
Amortization value at the end of the period	0	259	1 330	443	2 032
Net value at the end of period	9 087	796	41	21	9 945

For the period from 1 January 2017 to 31 December 2017

	Other intangible assets				
	Brand value	Patents, trademarks, development works	Computer software	Other	Total
Gross value at the beginning of the period	9 087	600	1 362	429	11 478
Increases	0	455	51	10	516
- purchase	0	455	51	10	516
Decrease	0	0	0	0	0
Gross value at the end of the period	9 087	1 055	1 413	439	11 994
Amortization value at the beginning of the period	0	250	1 240	429	1 919
increases	0	0	122	0	122
decreases	0	0	0	0	0
Amortization value at the end of the period	0	250	1 362	429	2 041
Net value at the end of period	9 087	805	51	10	9 953

Depreciation of intangible assets for a specified period of use is performed linearly according to amortization rates reflecting the expected period of their use.

The Group companies do not amortize intangible assets with an indefinite useful life. They are subjected to annual impairment tests and analysis of whether there are reasons to consider these assets as being used for a specified period of time.

At the end of 2018, the Management Board of Makarony Polskie SA assessed that there were no premises indicating the possible impairment of any of the assets subject to impairment tests of Tenczynek, Abak, Deli Susz.

At the end of 2018, obligatory tests for the brands impairment were performed. Tests were performed by discounting free cash flows method, with the following assumptions:
- 5-year forecast period (2019-2023),
- One scenario - realistic,
- Financial projections prepared on the basis of historical data taking into account organic plans for the development of the brand,
- Discount rates have been set at the level of the average post-tax capital cost (WACC) - 7.0-7.7%,
- Growth rate after the forecast period - 0%.

The tests performed did not show the need to make write-downs for brands.

For the impairment tests of brands prepared as at 31 December 2018, based on the calculation of the utility value, the sensitivity analysis of key assumptions was performed. The aim of the sensitivity analysis was to examine what value the selected parameters of the model would have to take, so that the estimated utility value of the cash-generating units would be equal to the carrying amount of the center. The conducted tests showed that the adopted values of key assumptions are at safe levels and there is a low probability that the recoverable amount would be below the book value.

Note No. 18
Long-term financial assets

Other long-term financial assets	31.12.2018	31.12.2017
Total long-term financial assets	0	0

Note No. 19
Inventories

Balance as at 31 December 2018

	Valuation according to the purchase price/production cost	Write-down on OB	Created write-down	Reversed impairment loss	Carrying amount of inventories at the end of the period
Materials	7 258	0	11	0	7 247
Supporting materials	396	0	0	0	396
Products in progress	73	0	0	0	73
Finished goods	9 835	0	33	0	8 802
Goods	639	0	0	0	639
TOTAL	**18 201**	**0**	**44**	**0**	**18 157**

Balance as at 31 December 2017

	Valuation according to the purchase price/production cost	Write-down on OB	Created write-down	Reversed impairment loss	Carrying amount of inventories at the end of the period
Materials	6 283	21	0	21	6 283
Supporting materials	590	0	0	0	590
Products in progress	156	0	0	0	156
Finished goods	8 145	0	0	0	8 145
Goods	450	0	0	0	450
TOTAL	**15 624**	**21**	**0**	**21**	**15 624**

Due to the current inventory rotation, in 2019 the Group plans to use all inventories included in the statement of financial position as at 31 December 2018 in the amount of PLN 18 157 k. Impairment losses on current assets (inventories) are made when a given component is considered non-negotiable, it is physically destroyed, the shelf life of finished products and raw materials makes it impossible to sell or use it and when the cost of manufacturing exceeds its price

In 2018, there were indications of a partial write-down of shares, Makarony Polskie SA made a write-down on finished products and raw material in the total amount of PLN 44 k.

As at 31 December 2018, the value of registered pledges on inventories of finished goods, materials and goods amounted to PLN 5,000 k, including:

- collateral of BZWBK credit agreement - PLN 5,000 k

Note No. 20
Receivables

	31.12.2018	31.12.2017
Trade receivables from other entities:	19 037	22 290
- short-term part	19 037	22 290
Receivables from subsidiaries:	0	0
- short-term part	0	0
Prepayments:	0	0
- short-term part	0	0
Other receivables: from other entities	6 562	6 328
- short-term part	6 562	6 328
Total value of gross receivables	25 599	28 618
Revaluation write-downs for the beginning of the period	76	76
Recognition in the period of impairment loss	96	0
Reversal in the period of impairment loss	0	0
Impairment loss at the end of the period	172	76
Net receivables	25 427	28 542

WRITE DOWNS OF RECEIVABLES

2018	Balance at the beginning of the period	Creation	Use and release	Balance at the end of the period
Allowances for receivables	76	96	0	122

2017	Balance at the beginning of the period	Creation	Use and release	Balance at the end of the period

Allowances for receivables	76	0	0	76

Other short-term receivables	31.12.2018	31.12.2017
Current VAT	3 441	1 143
Current VAT postponed	700	724
Corporate income tax	0	29
Other amounts due from employees	4	4
Paid out security deposit	73	2 107
Remuneration, benefits, social security contributions paid out	0	41
Prepayments	2 197	2 105
Other	147	175
Total other gross receivables	6 562	6 328
Write downs of receivables	0	0
Other net receivables	6 562	6 328

GROSS RECEIVABLES CURRENCY STRUCTURE

Gross short-term receivables	31.12.2018	31.12.2017
- in the Polish currency	23 395	26 514
- in foreign currencies:	2 204	2 105
a) unit/currency EUR	513	505
in PLN	2 204	2 105
b) unit/currency USD	0	0
in PLN	0	0
a) unit/currency GBP	0	0
in PLN	0	0
Gross short-term receivables	**25 599**	**28 618**

RECEIVABLES FROM DELIVERIES AND SERVICES - AGING

	31.12.2018	31.12.2017
1) Total current	16 280	19 080
2) Total overdue:	2 757	3 210
a) up to 1 month	2 293	2 927
b) over 1 month up to 3 months	177	92
c) over 3 months up to 6 months	113	12
d) over 6 months up to 1 year	2	103
e) over 1 year	172	76
Total gross trade receivables	**19 037**	**22 290**
Write downs of supplies and services receivables	172	76
Net trade receivables	18 865	22 214

Trade receivables consist of amounts due from trade transactions made to a large number of customers, distributed among various industries and geographic areas.

The Group is not exposed to material credit risk towards a single counterparty or a group of counterparties with similar characteristics. Receivables by virtue of supplies and services are not interest bearing and their maturity is usually 45 to 90 days. Revaluation write-downs of receivables are made when the counterparty is put into liquidation and bankruptcy or one that does not pay for more than 12 months after the due date, and its economic and financial situation indicates a high risk of non-payment. Receivables in court are covered by a 100% write-down. The Company has implemented special policy within the scope of making the sales with deferred payment only to verified customers. Transactions with other customers, including most foreign contractors, are covered by receivables insurance. Thanks to this, in the opinion of the management, there is no material credit risk, beyond the level specified by the provision for bad debts applicable to trade receivables in Makarony Polskie SA.

Note No. 21
CIT receivables

	31.12.2018	31.12.2017
CIT receivables	0	29

Note No. 22
Borrowings granted

	31.12.2018	31.12.2017
Balance at start of period	0	0
Borrowings granted	0	0
Accrued interest	0	0
Repayment during the period	0	0
Balance at the end of the period	0	0

As at 31 December 2018, the Makarony Polskie Group did not grant any loans.

Note No. 23
Cash and cash equivalents

	31/12/2018	31.12.2017

Cash at bank and in hand	359	1 454
Total, including:	359	1 454
- cash at bank and in hand assigned to discontinued operations	not applicable	not applicable

The value of cash and cash equivalents reflects their amount shown in the cash flow statement. The fair value of these funds corresponds to their value in the statement of financial position.

Cash in bank is interest bearing according to variable interest rates which amount depends on the interest rate of one day bank investments. Short term investments are made for different periods, from one day to one month, depending on the current demand of the Group for cash and bear interest according to interest rates determined for them. Cash and cash equivalents at the end of the financial year shown in the statement of cash flows can be reconciled to balance sheet items.

Note No. 24
Other assets

Other assets:	31.12.2018	31.12.2017
- long-term part	191	499
- short-term part	357	478

Long-term accruals, as at 31 December 2018, in the amount of PLN 191 k include consultancy services and fees for the granted guarantee.

SHORT-TERM PREPAYMENTS

Short-term prepayments	31.12.2018	31.12.2017
- insurances	206	195
- paid subscriptions	32	22
- public advertising/marketing services		
- electricity		
- commission on investment loan	0	23
- fees for provided guarantees	3	14
- consulting services	116	222

- other	0	2
Total	**357**	**478**

LONG-TERM PREPAYMENTS

Long-term prepayments	31.12.2018	31.12.2017
- consulting services	176	497
- commission on investment loan	0	0
- fees for provided guarantees	15	2
Total	**191**	**499**

Note No. 25
Share capital

Share capital of Makarony Polskie SA:

- amount of share capital PLN 27 750 213,
- total number of shares 9 250 071 shares,
- total number of votes at the General Assembly 9 250 071 votes.

Structure of the Company's share capital:

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

The Company's shares are ordinary bearer shares listed on the regulated market operated by the Warsaw Stock Exchange. The Company has not issued any securities that grant special controlling rights to any of its shareholders.

As at 31 December 2018

	Type of share	Type of preference	Number of shares in units	Nominal value		Method of capital coverage	Date of registration	Right to dividend (from)
				of one share in PLN	series (issue) in PLN k			

Series A	bearer shares	ordinary shares	3 013 250	3	9 040	cash contributions	05.07.2004	01.01.2004
Series B	bearer shares	ordinary shares	1 169 750	3	3 509	non-cash contributions	29.10.2004	01.01.2004
Series C	bearer shares	ordinary shares	3 000 000	3	9 000	cash contributions	18.04.2007.	01.01.2007
Series D	bearer shares	ordinary shares	1 735 821	3	5 207	cash contributions	22.06.2007	01.01.2007
Series E	bearer shares	ordinary shares	331 250	3	994	cash contributions	11.02.2008	01.01.2008
Total			**9 250 071**		**27 750**			

As at 31 December 2017

	Type of share	Type of preference	Number of shares in units	Nominal value		Method of capital coverage	Date of registration	Right to dividend (from)
				of one share in PLN	series (issue) in PLN k			
Series A	bearer shares	ordinary shares	3 013 250	3	9 040	cash contributions	05.07.2004	01.01.2004
Series B	bearer shares	ordinary shares	1 169 750	3	3 509	non-cash contributions	29.10.2004	01.01.2004
Series C	bearer shares	ordinary shares	3 000 000	3	9 000	cash contributions	18.04.2007.	01.01.2007
Series D	bearer shares	ordinary shares	1 735 821	3	5 207	cash contributions	22.06.2007	01.01.2007
Series E	bearer shares	ordinary shares	331 250	3	994	cash contributions	11.02.2008	01.01.2008
Total			**9 250 071**		**27 750**			

In the period from 31 December 2018 to the date of submitting the statements, Makarony Polskie SA did not perform subsequent issue of shares.

Note No. 26

Supplementary capital

Supplementary capital	31.12.2018	31.12.2017
Balance at the beginning of the period	42 184	39 505
Changes in accounting principles (policy)	0	0
Balance at the beginning of the period after adjustments (after transformation)	42 184	39 505
- issue of share capital	0	0
- other changes in capital	0	0
- profit distribution/loss coverage	3 911	2 679
- supplementary capital	46 095	42 184
Other capitals at the end of the period	46 095	42 184

Note No. 27

Result from previous years

Profit/loss from previous years	31.12.2018	31.12.2017
Balance at the beginning of the period	5 371	5 561
Mistakes adjustment	0	0
- profit/loss from previous years at the beginning of the period	5 371	5 561
-decreases due to transfer to supplementary capital	- 3 911	- 2 679
- dividend payment	- 2 313	- 2 313
Reversal of realized margin from previous years	7	
Net profit/loss at the end of the period	**-846**	**569**

The Group companies corrected the financial statements for the previous years, due to the error made in previous periods when estimating the leave provision and creating a provision for deferred tax from the revaluation of the value of land realized before 31 December 2017.

Transformations were made for statements:

Consolidated Statement of total income

FOR THE PERIOD	01.01.2017-31.12.2017-after adjustment	Adjustment amount	01.01.2017-31.12.2017-before adjustment
General administrative costs	6 671	806	5 865
Profit (loss) from continued operations	7 182	(806)	7 988
Gross profit	6 106	(806)	6 912
Income tax - deferred part	71	(92)	163
Net profit (loss) from continued operations	4 802	(715)	5 517
In this attributable to:	4 802	(715)	5 517
Shareholders of the parent Company	4 802	(715)	5 517
Non-controlling shares	0	0	0
Basic net result per share in PLN	0.52	(0.08)	0.60
Diluted net result per share in PLN	0.52	(0.08)	0.60
Other total net income/loss	0	0	0
Total net income	4 802	(715)	5 517
Total net income attributable to:	4 802	(715)	5 517

Consolidated statement of financial position

LIABILITIES	01.01.2017-31.12.2017-after adjustment	Adjustment amount	01.01.2017-31.12.2017-before adjustment
EQUITY	**75 305**	**(715)**	**76 020**
Net profit/loss	4 802	(715)	5 517
LONG-TERM LIABILITIES	**20 432**	**(92)**	**20 524**
Provision for deferred income tax	3 447	(92)	3 539
SHORT-TERM LIABILITIES	**41 471**	**806**	**40 665**
Provision for retirement and similar benefits (short-term)	955	806	149
TOTAL LIABILITIES	**61 903**	**715**	**61 188**
TOTAL LIABILITIES	**137 208**	**0**	**137 208**

Consolidated statement of changes in cash flows

FOR THE PERIOD	01.01.2017-31.12.2017-after adjustment	Adjustment amount	01.01.2017-31.12.2017-before adjustment
Cash flows from operating activities			
Profit before tax	**6 106**	**(806)**	**6 912**
Adjustments by items:	**1,610**	**806**	**804**
Change in provisions	932	806	126

Statement of changes in equity

Equity - after adjustment

	Share capital	Supplementary capital	Current year result	Profit/loss from previous years	Total equity
Balance as at 1 January 2017	27 750	39 505	0	5 561	72 816
Distribution of profit/loss coverage	0	2 679	0	- 2 679	0
Other total income	0	0	0	0	0
Dividend payment	0	0	0	- 2 313	-2 313
Net result in 2017	0	0	4 802	0	4 802

Balance as at 31 December 2017	27 750	42 184	4 802	569	75 305

Equity - before adjustment

	Share capital	Supplementary capital	Current year result	Profit/loss from previous years	Total equity
Balance as at 1 January 2017	27 750	39 505	0	5 561	72 816
Distribution of profit/loss coverage	0	2 679	0	- 2 679	0
Other total income	0	0	0	0	0
Dividend payment	0	0	0	- 2 313	- 2 313
Net result in 2017	0	0	5 517	0	5 517
Balance as at 31 December 2017	27 750	42 184	5 517	0	76 020

In the statement of changes in equity:

- result of the current year - amount (715) PLN k
- Equity (own fund) at the end of the period - amount (715) PLN k

The companies of the Group transformed the financial statements for 2017, taking into account the above presented and described changes.

In connection with the above, the corresponding notes were also corrected

Note No. 28

Information on loans and sureties obtained as at 31 December 2018.

LONG- AND SHORT-TERM LOANS AND BORROWINGS

	31.12.2018	31.12.2017
- long-term part	10 541	8 221
- short-term part	14 170	12 272
Total	**24 711**	**20 493**

The status of loan and factoring agreements in effect as at 31 December 2018, for which Makarony Polskie SA was a party to the agreements, is presented in the tables below:

– Overdraft in Santander Bank Polska SA

Loan terms and conditions	31 December 2018

Loan contractual value	PLN 5 000 k
Loan period*	18.10.2013 – 01.06.2019
Interest rate	WIBOR 1M + the bank's margin that does not differ from the standards applied by the bank
Loan balance	PLN 2 951 k
Repayment schedule	once on the liability maturity date
Loan collateral	– joint mortgage up to PLN 33,000 on the following real estates: a) in KW No. RZ1Z/00076860/5 located in Rzeszów with the assignment of rights from the property insurance policy, a) in KW No. PL1P/00094893/6 located in Płock with the assignment of rights from the property insurance policy; – blank promissory note issued by the Borrower together with a promissory note declaration, – registered pledge on inventories with a value not lower than PLN 5,000 k with the assignment of rights under the registered pledge insurance policy, – surety of Stoczek Natura Sp. z o.o., – declaration on submission to enforcement made pursuant to Article 777 of the Code of Civil Procedure, in the form of a notarial deed.

* In the second quarter of 2018, Makarony Polskie SA concluded with Bank Zachodni WBK an annex to the overdraft. Pursuant to the annex, the repayment date has been extended until 1 January 2019.

– Investment loan at Santander Bank Polska SA

Loan terms and conditions	31 December 2018
Loan contractual value	PLN 13 849 k
Loan period	18.10.2013 – 30.04.2020
Interest rate	WIBOR 3M + the bank's margin that does not differ from the standards applied by the bank
Loan balance	PLN 7 077 k
Repayment schedule	52 monthly installments starting from 31 December 2015 in the following amounts: 52 installments in the amount of PLN 0.17 m each and the last 53rd equalizing installment
Loan collateral	– joint mortgage up to PLN 33,000 on the following real estates: a) in KW No. RZ1Z/00076860/5 located in Rzeszów with the assignment of rights from the property insurance policy, a) in KW No. PL1P/00094893/6 located in Płock with the assignment of rights from the property insurance policy; – registered pledge on fixed assets (production lines in the plant in Rzeszów), – transfer of receivables under the pledged item insurance contract, – blank promissory note issued by the Borrower together with a promissory note declaration, – civil law surety of Stoczek Natura Sp. z o.o., – declaration on submission to enforcement made pursuant to Article 777 of the Code of Civil Procedure, in the form of a notarial deed.

– EU investment loan at Santander Bank Polska SA

Loan terms and conditions	31 December 2018
Loan contractual value	PLN 12 121 k
Loan period	07.02.2017 - 28.02.2022
Interest rate	WIBOR 3M + the bank's margin that does not differ from the standards applied by the bank
Loan balance	PLN 527 k
Repayment schedule	The loan will be repaid in 32 monthly installments starting from 31 July 2019, in the following amounts: 31 installments in the amount of PLN 0.15 m each and the last 32 installment in the amount of PLN 7.65 m. In the case of repayment of the loan from the funding received, the repayment schedule will change due to the balloon installment change. Installments of the repaid loan will be changed in such a relation to the installments specified in the original schedule, as the amount of the loan used to the loan amount. After receiving the refund, the loan will be repaid in 32 monthly installments starting from 31 July 2019, in the following amounts: 31 installments in the amount of PLN 0.04 m each and the last 53rd equalizing installment
Loan collateral	– joint mortgage up to PLN 18,200 on the following real estates: a) in KW No. RZ1Z/00076860/5 located in Rzeszów with the assignment of rights from the property insurance policy, a) in KW No. PL1P/00094893/6 located in Płock with the assignment of rights from the property insurance policy; – registered pledge on a semi-industrial line for tests with accessories, – transfer of receivables under the pledged item insurance contract, – blank promissory note issued by the Borrower together with a promissory note declaration, – civil law surety of Stoczek Natura Sp. z o.o., – declaration on submission to enforcement made pursuant to Article 777 of the Code of Civil Procedure, in the form of a notarial deed.

The loan is intended to finance the investment project "Establishment of the Research and Development Center of the Pasta Industry at Makarony Polskie SA".

– EU investment loan at Santander Bank Polska SA

Loan terms and conditions	31 December 2018
Loan contractual value	PLN 8 000 k
Loan period	15.09.2017 - 31.01.2022
Interest rate	WIBOR 3M + the bank's margin that does not differ from the standards applied by the bank
Loan balance	PLN 5 071 k

Repayment schedule*	The loan will be repaid in 37 monthly installments starting from 31 January 2019, in the following amounts: 36 installments in the amount of PLN 0.1 m each and the last 53rd equalizing installment In the case of repayment of the loan from the funding received, the repayment schedule will change due to the balloon installment change. Installments of the repaid loan will be changed in such a relation to the installments specified in the original schedule, as the amount of the loan used to the loan amount.
Loan collateral	– joint mortgage up to PLN 12,000 on the following real estates: a) in KW No. RZ1Z/00076860/5 located in Rzeszów with the assignment of rights from the property insurance policy, a) in KW No. PL1P/00094893/6 located in Płock with the assignment of rights from the property insurance policy; – registered pledge on the acquired line under the grant project, – transfer of receivables under the pledged item insurance contract, – blank promissory note issued by the Borrower together with a promissory note declaration, – civil law surety of Stoczek Natura Sp. z o.o., – assignment from the Grant Agreement

* In June 2018 and in January 2019, Makarony Polskie SA concluded with Santander Bank Polska SA annexes to the EU investment loan agreement, the subject of which was, among others, extension of the credit limit activation period and change of the repayment schedule.
The annex from January 2019 extended the period of using the credit limit until 30 April 2019. It also set a new schedule for the repayment of loan installments. The loan will be repaid in 34 monthly installments starting from 30 April 2019, in the following amounts: 33 installments in the amount of PLN 0.1 m each and the last 35th equalizing installment, in the amount of PLN 4.54 m. In the case of repayment of the loan from the funding received, the repayment schedule will change due to the balloon installment change. Installments of the repaid loan will be changed in such a relation to the installments specified in the original schedule, as the amount of the loan used to the loan amount.

The loan is intended to finance the investment project "Implementation of the results of research and development in the field of functional food in Makarony Polskie SA".

– Revolving loan in Santander Bank Polska SA

Loan terms and conditions	31 December 2018
Loan contractual value	PLN 1 800 k
Loan period	15.09.2017 - 31.10.2019
Interest rate	WIBOR 1M + the bank's margin that does not differ from the standards applied by the bank
Loan balance	PLN 0 k
Repayment schedule	the repayment of the credit tranche is made after 90 days

Loan collateral	– joint mortgage up to PLN 2,700 on the following real estates: a) in KW No. RZ1Z/00076860/5 located in Rzeszów with the assignment of rights from the property insurance policy, a) in KW No. PL1P/00094893/6 located in Płock with the assignment of rights from the property insurance policy; – registered pledge on purchased lines under grant projects, – transfer of receivables under the pledged item insurance contract, – blank promissory note issued by the Borrower together with a promissory note declaration, – declaration on submission to enforcement made pursuant to Article 777 of the Code of Civil Procedure, in the form of a notarial deed.

The loan is intended to finance VAT for purchases made as part of investment projects.

– Revolving loan in Santander Bank Polska SA

In the first half of 2018, Makarony Polskie SA used a working capital loan with a contractual limit of PLN 3.0 m. Pursuant to the provisions of the loan agreement, the loan was repaid in due time and the obligations resulting from the agreement between the Company and the bank expired.

– Overdraft in Bank Gospodarstwa Krajowego

Loan terms and conditions	31 December 2018
Loan contractual value	PLN 6 000 k
Loan period*	14.06.2013 – 30.06.2019
Interest rate	WIBOR 3M + the bank's margin that does not differ from the standards applied by the bank
Loan balance	PLN 4 571 k
Repayment schedule	once on the liability maturity date
Loan collateral	– joint mortgage up to PLN 16,500 on the following real estates: a) in KW No. CZ1C/00111425/8 located in Częstochowa, with the assignment of rights from the property insurance policy, a) in KW No. LU1U/00022979/2 located in Stoczek Łukowski with the assignment of rights from the property insurance policy; – blank promissory note issued by the Borrower together with a promissory note declaration, – authorization to a current account kept at BGK bank, – surety of Stoczek Natura Sp. z o.o., – declaration of Borrower and Guarantor on submission to enforcement made pursuant to Article 777 of the Code of Civil Procedure, in the form of a notarial deed (up to PLN 12 m).

* During the financial year 2018, Makarony Polskie SA concluded with Bank Gospodarstwa Krajowego an annex to overdraft agreement. The annex to the overdraft agreement extends the repayment date of the liability from 30 June 2018 to 30 June 2019.

– Nonrevolving overdraft in Bank Gospodarstwa Krajowego

Loan terms and conditions	31 December 2018
Loan contractual value	PLN 5 000 k
Loan period*	30.06.2015 – 29.06.2020
Interest rate	WIBOR 3M + the bank's margin that does not differ from the standards applied by the bank
Loan balance	PLN 1 500 k
Repayment schedule*	20 equal, quarterly capital installments of PLN 0.25 m from 30 September 2015 to 29 June 2020.
Loan collateral	– joint mortgage up to PLN 16,500 on the following real estates: a) in KW No. CZ1C/00111425/8 located in Częstochowa, with the assignment of rights from the property insurance policy, a) in KW No. LU1U/00022979/2 located in Stoczek Łukowski with the assignment of rights from the property insurance policy; – blank promissory note issued by the Borrower together with a promissory note declaration, – authorization to a current account kept at BGK bank, – surety of Stoczek Natura Sp. z o.o., – transfer of receivables under the pledged item insurance contract, – declaration of Borrower and Guarantor on submission to enforcement made pursuant to Article 777 of the Code of Civil Procedure, in the form of a notarial deed (up to PLN 4 m).

* During the financial year 2018, Makarony Polskie SA concluded with Bank Gospodarstwa Krajowego an annex to a revolving non-renewable overdraft agreement, the subject of which was, inter alia, extension of the repayment date of the liability from June 29, 2018 to June 29, 2020 and change of the repayment schedule.

– Factoring agreement (full) in BZ WBK Faktor Sp. z o.o.

Contract terms and conditions	31 December 2018
Contractual value	PLN 5 500 k
Duration	Agreement concluded for an indefinite period
Interest rate	WIBOR 1M + the bank's margin that does not differ from the standards applied by the bank
Factoring balance	PLN 2 673 k
Contract collateral	– irrevocable power of attorney to the account, – blank promissory note with a promissory note declaration

As at 31 December 2018, Stoczek Natura Sp. z o.o. was a party to one loan agreement and its status is presented in the table below:

– Overdraft in Bank Gospodarstwa Krajowego

Loan terms and conditions	31 December 2018
Loan contractual value	PLN 3 000 k
Loan period*	16.11.2017 – 16.11.2019
Interest rate	WIBOR 3M + the bank's margin that does not differ from the standards applied by the bank
Loan balance	PLN 2 999 k
Repayment schedule	once on the liability maturity date
Loan collateral	– contractual mortgage up to PLN 4,500 k on real estate marked in KW No. LU1U/00022979/2 located in Stoczek Łukowski together with the assignment of rights from the property insurance policy, – authorization to a current account kept at BGK bank, – surety of Makarony Polskie SA, – registered pledge on the set of machines and devices (located in the plant in Stoczek Łukowski), – declaration of Borrower and Guarantor on submission to enforcement made pursuant to Article 777 of the Code of Civil Procedure, in the form of a notarial deed (up to PLN 6 m).

* During the financial year 2018, Stoczek Natura Sp. z o.o. concluded with Bank Gospodarstwa Krajowego annexes to the overdraft agreement, which extended the repayment date of the obligation of November 16, 2018 to November 16, 2019.

INFORMATION ON LOANS GRANTED

As at 31 December 2018, Makarony Polskie SA granted to its subsidiary Stoczek Natura Sp. z o.o. a short-term loan in the amount of PLN 2.0 m with the repayment date falling on December 31, 2019 (one-off repayment to maturity date). The interest rate on the loan was determined based on market conditions.

Stoczek Natura Sp. z o.o. and MP Trade Sp. z o.o. did not grant loans during 2018.

INFORMATION ON GRANTED AND RECEIVED SURETIES

As at 31 December 2018, Makarony Polskie SA granted sureties to the Polish Chamber of Pasta and its subsidiary Stoczek Natura Sp. z o.o., and their condition as at 31 December 2018 is presented below:

External liabilities	Name of the entity to which the guarantee was granted	Creditor name	Amount of surety in PLN k	Expiration date	Balance of secured liabilities in PLN k as at 31.12.2018
Surety revolving loan in the amount of PLN 2.35 m*	Polska Izba Makaronu	BPS	4 275	30.05.2021	637
Surety revolving loan in the amount of PLN 0.5 m*	Polska Izba Makaronu	BPS	750	30.05.2021	183
Surety of overdraft in the amount of PLN 3.0 m**	Stoczek Natura Sp. z o.o.	Bank BGK	3 000	16.05.2020	2 999
Surety bank guarantee in the amount of PLN 0.5 m	Stoczek Natura Sp. z o.o.	Bank BGK	504	13.06.2022	-
Surety bank guarantee in the amount of PLN 1.5 m	Stoczek Natura Sp. z o.o.	Bank BGK	1 549	15.06.2022	-

* The loans were used to finance the 3-year information and promotion campaign "Pasta of Europe" implemented by PIM in 2016-2018. The activities will be performed on the markets of China and Ukraine. The cost of the campaign is supported by the European Union and the Agricultural Market Agency. External financing collaterals of the repayment of the loan.

** During the financial year Makarony Polskie SA concluded with Bank BGK an annex to the surety agreement for loans taken by Stoczek Natura Sp. z o.o. Pursuant to the annex, the validity period for the overdraft agreement has been extended until May 16, 2020 (the current deadline is May 16, 2019)

During the financial year 2018, Makrony Polskie SA guaranteed Stoczek Natura Sp. z o.o. a guarantee for PLN 1,472 k granted by Bank Gospodarstwa Krajowego. The guarantee secured proper performance of the contract with the National Support Center for Agriculture and in connection with the overall settlement of the secured contract by Stoczek Natura Sp. z o.o. was released and the surety granted expired.

Makarony Polskie SA received remuneration for granting sureties.

Stoczek Natura Sp. o.o. granted sureties to the parent Company Makarony Polskie SA, and their status as at 31 December 2018 is presented below:

External liabilities	Creditor name	Amount of surety in PLN k	Expiration date	Balance of the secured liabilities in PLN k as at 31.12.2018
Surety of overdraft facility in the amount of PLN 5.0 m	BZ WBK	7 500	31.05.2019	2 951
Investment loan surety in the amount of PLN 13.8 m	BZ WBK	30 000	30.09.2021	7 077
Non-renewable revolving overdraft of PLN 5.0 m *	Bank BGK	5 000	29.12.2020	1 500
Surety of overdraft facility in the amount of PLN 6.0 m*	Bank BGK	6 000	31.12.2019	4 571
Surety of an EU investment loan in the amount of PLN 8.0 m	BZ WBK	8 000	applies until the subsidy is settled	5 071
Surety of an EU investment loan in the amount of PLN 12.1 m	BZ WBK	12 121	applies until the subsidy is settled	527

* During the financial year, Stoczek Natura Sp. z o.o. concluded with Bank BGK an annex to the surety agreement for loans taken by Makarony Polskie SA. Pursuant to the concluded annex, the validity period of the liability was extended: the surety for the overdraft agreement is valid until December 30, 2019 (the current date is 31 December 2018), and the non-renewable revolving overdraft agreement is valid until December 29, 2020 (current date: December 29, 2018).

Stoczek Natura Sp. z o.o. received remuneration for granting sureties.

MP Trade Sp. z o.o. in the financial year 2018 did not grant any sureties.

Note No. 29
Guarantees obtained and granted

In 2018, the Group companies did not grant any guarantees, and Makarony Polskie SA and Stoczek Natura Sp. z o.o. used the granted guarantees.

The list of guarantees in force at Makarony Polskie SA as at 31 December 2018 is illustrated in the table below:

Guarantor	Guarantee amount in PLN k	Guarantee validity period	Subject of the guarantee	Collateral
BZ WBK SA	1 011	until 28.12.2021	guarantee securing the Company's obligations under the agreement for sales and storing pasta, under the contract concluded with Agencja Rezerw Materiałowych	joint mortgage up to PLN 1,517 on the following real estates: a) in KW No. RZ1Z/00076860/5 located in Rzeszów with the assignment of rights from the property insurance policy, a) in KW No. PL1P/00094893/6 located in Płock with the assignment of rights from the property insurance policy; - blank promissory note with a promissory note declaration
BZ WBK SA	249	until 22.01.2021	guarantee securing the Company's obligations under the agreement for storing pasta, under the contract concluded with Agencja Rezerw Materiałowych	joint mortgage up to PLN 373 on the following real estates: a) in KW No. RZ1Z/00076860/5 located in Rzeszów with the assignment of rights from the property insurance policy, a) in KW No. PL1P/00094893/6 located in Płock with the assignment of rights from the property insurance policy; - blank promissory note with a promissory note declaration

By March 2018, Makarony Polskie SA used two guarantees for a total of PLN 544,000 k provided by STU Ergo Hestia SA. Guarantees secured due performance of the contract with the Material Reserves Agency and were released in connection with the overall settlement of secured contracts.

Statement of guarantees applicable in Stoczek Natura Sp. z o.o. as at 31 December 2018 is shown in the table below:

Guarantor	Guarantee amount in PLN k	Guarantee validity period	Subject of the guarantee	Collateral
Bank Gospodarstwa Krajowego	504	until 13.12.2021	guarantee securing the Company's obligations under the agreement for storing ready-made meals, under the contract concluded with Agencja Rezerw Materiałowych	- contractual mortgage up to PLN 756 k on real estate marked in KW No. LU1U/00022979/2 located in Stoczek Łukowski together with the assignment of rights from the property insurance policy, blank promissory note issued by the Customer together with a promissory note declaration, - authorization to a current account kept at BGK bank, - surety of Makarony Polskie SA
Bank Gospodarstwa Krajowego	1 549	until 15.12.2021	guarantee securing the Company's obligations under the agreement for storing ready-made meals, under the contract concluded with Agencja Rezerw Materiałowych	- contractual mortgage up to PLN 2323 k on real estate marked in KW No. LU1U/00022979/2 located in Stoczek Łukowski together with the assignment of rights from the property insurance policy, blank promissory note issued by the Customer together with a promissory note declaration,

				- authorization to a current account kept at BGK bank, - surety of Makarony Polskie SA
Bank Gospodarstwa Krajowego	24	until 25.03.2022	guarantee securing the Company's obligations under the agreement for storing preserves, under the contract concluded with Agencja Rezerw Materiałowych	blank promissory note issued by the Customer together with a promissory note declaration, - authorization to a current account kept at BGK bank,

In the period from January to August 2018, Stoczek Natura Sp. z o.o. benefited from a guarantee for PLN 1,472 k granted by Bank Gospodarstwa Krajowego. The guarantee secured the due performance of the contract with the National Support Center and in connection with the overall settlement of the secured contract, the guarantee was released during the financial year.

Note No. 30

Provision for pensions and similar

2018	Balance at the beginning of the period	Creation	Use and release	Balance at the end of the period
For retirement and similar benefits, including:	1 145	308	126	1 327
a) long-term	190	95	0	285
b) short-term	955	213	126	1 042
Other provisions, including:	0	0	0	0
a) provision for financial statements auditing	0	0	0	0
b) other	0	0	0	0
Total	1 145	308	126	1 327

2017	Balance at the beginning of the period	Creation	Use and release	Balance at the end of the period
For retirement and similar benefits, including:	214	993	62	1 145
a) long-term	143	49	2	190
b) short-term	71	944	60	955
Other provisions, including:	0	0	0	0
a) provision for financial statements auditing	0	0	0	0

b) other	0	0	0	0
Total	214	993	62	1 145

The Group pays the retiring employees amounts of severance payments in the amount specified by the Labor Code and internal regulations. In relation to this, based on the assessment performed by actuary, creates a reserve for current amount of liabilities by virtue of severance payments.

Calculation of the provision has been made for people currently employed and does not apply to persons who will be accepted for future work. The right to retirement bonuses is available to every employee who has reached the retirement age. For persons who are already pensioners (who have received a severance payment), the provision is not created.

Note No. 31
Long-term and short-term financial liabilities

LIABILITIES FROM FINANCE LEASING CONTRACTS

	Total present value of minimum fees	
	as at 31.12.2018	as at 31.12.2017
up to 1 year	944	826
in the period from 1 to 5 years	1 229	2 036
Total	**2 173**	**2 832**

OTHER FINANCIAL LIABILITIES - HEDGE ACCOUNTING

	As at 31.12.2018	As at 31.12.2017
up to 1 year	0	0
in the period from 1 to 5 years	0	0
Total	**0**	**0**

Note No. 32
Other liabilities

	31.12.2018	31.12.2017
Liabilities for deliveries and services from other entities:	**26 216**	**24 984**
- long-term part	0	0
- short-term part	26 216	24 984
Commitments towards subsidiaries	**0**	**0**
- long-term part	0	0
- short-term part	0	0
Liabilities towards entities	**0**	**0**

Prepayments:	130	100
Other liabilities:	**1 865**	**1 781**
- long-term part	0	0
- short-term part	1 865	1 781
Total liabilities	**28 211**	**26 865**

Liabilities from deliveries and services	31.12.2018	31.12.2017
- towards affiliates	0	0
- towards other entities	26 216	24 984
Total	**26 216**	**24 984**

Public, legal and other obligations	31.12.2018	31.12.2017
- personal income tax	186	188
- Social security costs	462	481
- VAT	0	17
- wages and salaries	652	589
- State Fund for Rehabilitation of Persons With Disabilities	10	9
- corporate income tax	220	65
- liabilities due to factoring contracts	0	0
- other	335	432
Total	**1 865**	**1 781**

LIABILITIES - CURRENCY STRUCTURE

	31.12.2018	31.12.2017
- in the Polish currency	22 550	22 957
- in foreign currencies:	5 661	3 908
a) unit/currency EUR	1 317	937
in PLN	5 661	3 908
a) unit/currency GBP	0	0
in PLN	0	0
Total	**28 211**	**26 865**

LIABILITIES FOR DELIVERIES AND SERVICES - AGING

	31.12.2018	31.12.2017
1) Total current	21 811	20 962
2) Total overdue:	4 405	4 022
a) up to 1 month	4 221	3 970
b) over 1 month up to 3 months	131	52
c) over 3 months up to 6 months	29	0
d) over 6 months up to 1 year	1	0
e) over 1 year	23	0

Total trade liabilities	**26 216**	**24 984**

Note No. 33
Revenue of future periods

	31.12.2018	31.12.2017
Revenue of future periods	**6 971**	**7 091**
- long-term part	6 062	6 538
- short-term part	909	553

The short- and long-term part of accruals includes subsidies for the purchase of machinery and equipment received by the parent Company Makarony Polskie SA. The subsidy amounts were granted in 2006 and in 2009.

If the subsidy concerns an asset, its fair value is recognized in the deferred income account and then gradually, by equal annual write-downs, written down in the statement of comprehensive income for the estimated useful life of the related asset.

In 2018, the Group's companies released from the revenues of future periods subsidies obtained to fixed assets and recognized in the item other operating revenues amounting to PLN 546 k.

Note No. 34
Off-balance items

(in PLN k)	31 December 2018	31 December 2017
1. Contingent assets	3 962	5 329
- received guarantees and sureties	3 337	5 329
- collaterals on assets	0	0
- bills of exchange	625	0
2. Contingent liabilities	**174 662**	**171 729**
- for provided guarantees and warranties	5 025	5 025
- collaterals on property	116 517	118 725
- promissory note obligations	53 120	47 979
Total off-balance items	**-170 700**	**-166 400**

The values of guarantees received, collaterals, promissory notes, mortgages and other off-balance sheet liabilities in the table above have been presented at maximum values.

The statement does not include sureties between entities within the Group due to the lack of inflows on the balance of off-balance sheet items.

Note No. 35
Transactions with related parties

DIVIDENDS PAID AND PROPOSED FOR PAYMENT

During 2018, the Company's Management recommended to the Ordinary General Assembly that the entire net profit for the financial year 2017 in the amount of PLN 5,249 k, be excluded from the distribution among shareholders and be allocated to supplementary capital of Makarony Polskie SA. This decision was dictated by the ambitious multi-million investment plans adopted by the Group for 2018-2019. The Group companies have obtained both co-financing from European Union funds as well as foreign funding for the implementation of these investments (long-term investment loans), however, in order to ensure proper cash flows, the Management Board believes it is necessary to provide an appropriate level of own contribution from the Group.
On 28 June 2018, the Ordinary General Assembly of Makarony Polskie SA adopted the Resolution No. 15 on payment of a dividend in the amount of PLN 2 312 517.75, that is PLN 0.25 gross per share. The remaining part of the profit in the amount of PLN 2 936 371.26 was allocated to the Company's supplementary capital.

The dividend day was set for August 14, 2018. The dividend was paid on 28 August 2018. There were 9 250 071 shares of the Company entitled to the dividend.

In 2019, the Management Board of the Company decided to recommend to the Ordinary General Assembly that the net profit for the period from 1 January 2018 to 31 December 2018 in the amount of PLN 5 069 631.54 should be divided as follows:

- PLN 2 312 517.75 to be used to pay dividends, i.e. to pay a dividend of PLN 0.25 gross per share,
- The remaining part of the profit in the amount of PLN 2 757 113.79 should be allocated to the Company's supplementary capital.

According to Article 382 §3 of the Commercial Companies Code, this recommendation was presented by the Management Board to the Supervisory Board for information and received

a positive opinion of the Supervisory Board. The final decision regarding the distribution of profits for the 2017 financial year will be taken by the Ordinary General Assembly of the Company.

The Management Board of Makarony Polskie SA decided that in subsequent financial years it will also try to recommend the payment of dividend to shareholders to the Ordinary General Assembly, although the possibility of dividend payment will depend on the amount of the achieved profit, current investment objectives and the company's situation.

SETTLEMENTS WITH AFFILIATES

Within the Makarony Polskie Group, individual companies conclude with each other transactions of purchase and sale of products, goods and services, There are agreements between the companies specifying the terms of cooperation, adapted to the Group's organizational structure. All transactions are performed under the market terms and conditions.

Affiliate	Sales to affiliates - total revenues		Purchases from affiliates	
	For the period from 01.01 to 31.12.2018	For the period from 01.01 to 31.12.2017	For the period from 01.01 to 31.12.2018	For the period from 01.01 to 31.12.2017
Parent Company - Makarony Polskie S.A.	644	3 806	23 523	18 774
from/to Stoczek Sp. z o.o.	593	860	21 636	16 676
from/to MP Trade Sp. z o.o.	51	2 946	1 887	2 098

Affiliate	Receivables from related entities		Liabilities towards affiliates	
	Per day 31.12.2018	Per day 31.12.2017	As at 31.12.2018	As at 31.12.2017
Parent Company - Makarony Polskie S.A.	167	1 844	1 305	436
- from/to Stoczek Sp. z o.o.	162	1 549	889	351
from/to MP Trade Sp. z o.o.	5	295	416	85

SETTLEMENTS BETWEEN SUBSIDIARIES

Subsidiaries	Sales between subsidiaries - total revenues		Purchases between subsidiaries	
	For the period from 01.01 to 31.12.2018	For the period from 01.01 to 31.12.2017	For the period from 01.01 to 31.12.2018	For the period from 01.01 to 31.12.2017
Total subsidiary	228	3 641	228	3 641
- from/to Stoczek Sp. o.o.	7	3 484	221	157
from/to MP Trade Sp. z o.o.	221	157	7	3 484

Subsidiaries	Receivables between subsidiaries		Liabilities between subsidiaries	
	Per day 31.12.2018	Per day 31.12.2017	As at 31.12.2018	As at 31.12.2017
Total subsidiary	0	720	0	720
- from/to Stoczek Sp. o.o.	0	720	0	0
from/to MP Trade Sp. z o.o.	0	0	0	720

Note No. 36

Other items related to assets, liabilities, equity, revenues, costs and net profit or cash flow statement are not typical due to their nature, size or scope

In 2018, there were no unusual items, other than those described in the Company's financial statements, due to their nature, size or scope.

Note No. 37

Material Contracts

- Contract with Jeronimo Martins Polska SA

On the basis of an agreement concluded between Makarony Polskie SA and Jeronimo Martins Polska SA, pasta is sold to the Biedronka chain under the own brands of the chain: Pastani, Dobrusia and Makaron Szlachecki.

- Conditions with Lidl network

On the basis of agreements concluded between Makarony Polskie SA and Lidl chain, the products offered by the Company are offered in stores of this network.

- Contract for co-financing the project entitled "Establishment of the Research and Development Center of the Pasta Industry at Makarony Polskie SA"

Since April 2017, the Company has been implementing a Contract for co-financing a project entitled "Establishment of the Research and Development Center of the Pasta Industry at Makarony Polskie SA". The contract is concluded with the Ministry of Development and Finance (MIiR), and the project received a subsidy under measure 2.1 Support for investment in R&D infrastructure of enterprises, the Intelligent Development Operational Program 2014-2020.

The subject of the concluded grant agreement is the establishment of the Research and Development Center of the Pasta Industry at Makarony Polskie SA. The B&R Center will conduct work on innovative products with pro-health features that will ultimately enrich the Company's product offer as well as issues relevant to the entire pasta industry.

The Company plans to purchase fixed assets and construction works, as part of the project. For the needs of the B&R Center, the purchase will include a modern production test line, whose parameters will reflect the conditions prevailing during the industrial production process (that line will be an asset of material value),

The total cost of the project is approx. PLN 18.6 m. The total maximum amount of expenditure eligible for support is approximately PLN 15.2 m. Co-financing amounts to approx. PLN 9.1 m.

In March 2019, the Company concluded an annex with MIiR, under which the project completion date was updated as at March 31, 2020 (earlier, the date was set for June 30, 2019). The Company's request to change the date of completion of the project implementation was dictated by changes made to the construction documentation and to the scope of construction works. Postponing the project completion date will allow the Company to fully meet its obligations and to complete the project as intended.

Terms and conditions of the Agreement do not differ from those commonly used for this type of agreements. The performance bond is a blank promissory note inserted by the Company along with a promissory note declaration.

- Annexes to the investment loan agreement concluded with Santander Bank Polska SA

In June 2018 and January 2019, Makarony Polskie SA concluded with Santander Bank Polska SA (formerly: Bank Zachodni WBK SA, hereinafter referred to as: "Bank"), annexes to the EU investment loan agreement worth PLN 8 m. The loan is intended to finance investments related to the project entitled "Implementation of the results of research and development in the field of functional food in the Makarony Polskie SA Company."

The subject of the annexes included extension of the credit limit activation period to 31 March 2019 (originally the start-up period was until 30 June 2018) and change of the repayment schedule.

The loan will be repaid in 34 monthly installments starting from 30 April 2019, in the following amounts: 33 installments in the amount of PLN 0.1 m each and last installment 34 in the amount of PLN 4.54 m (originally the schedule assumed repayment of the loan in 43 monthly installments payable from 31 July 2018, including 42 installments of equal amount of PLN 0.09 m and the last balloon installment in the amount of PLN 4.13 m). In the case of repayment of the loan from the funding received, the repayment schedule will change due to the balloon installment change. Installments of the repaid loan will be changed in such a relation to the installments specified in the original schedule, as the amount of the loan used to the loan amount.

- Contract for co-financing the project entitled" Implementation of the results of research and development in the field of functional food in the Makarony Polskie SA Company."

Since March 2017, the Company has been implementing a Contract for co-financing the project entitled „Implementation of the results of research and development in the field of functional food in the Makarony Polskie SA Company." The contract is concluded with the Podkarpackie Region Board and the project received a subsidy under measure 1.4 SME support, Regional Operational Program of the Podkarpackie Region 2014-2020.

The subject of the concluded grant agreement is implementation of research and development results performed in cooperation with the scientific unit, based on the development of innovative recipes of products using raw materials that are not standard in the pasta industry. The main objective of the project is the expansion of Makarony Polskie SA on the functional food market,

The Company plans to purchase fixed assets, as part of the project. The asset for the material value acquired under the project will be a modern pasta production line.

The total cost of the project is PLN 12.3 m. The total maximum amount of expenditure eligible for support is approximately PLN 10.0 m. Co-financing amounts to PLN 5.5 m.

In July 2018 and March 2019, Makarony Polskie SA concluded with the Board of the Podkarpackie Region annexes to the contract under which the project implementation date was set for April 30, 2019 (originally scheduled for June 30, 2018), provisions of the agreement on the protection of personal data, adapting them to the legal requirements arising from the entry into force The Regulation (EU) 2016/679 of the European Parliament and of the Council of 27 April 2016 on the protection of individuals with regard to the processing of

personal data and on the free movement of such data and the repeal of Directive 95/46/EC (general regulation on data protection)

The terms of the contract are consistent with those commonly used for this type of contracts. The performance bond is a blank promissory note inserted by the Company along with a promissory note declaration.

- Annexes to loan agreements concluded with Bank Gospodarstwa Krajowego

In July 2018, the Company concluded with Bank Gospodarstwa Krajowego annexes to loan agreements that meet the criteria of a material agreement, with a total contractual value of PLN 8.0 m (the original value of loan agreements is PLN 11.0 m), i.e. overdraft agreement and revolving non-renewable overdraft agreement.

The highest-value contract was an overdraft agreement with a credit limit of PLN 6.0 m. The annex to the overdraft agreement extends the repayment date of the liability from 30 June 2018 to 30 June 2019.

Other material terms of the loan agreement have not changed.

In connection with the conclusion of the abovementioned annexes, the term of surety granted to Makarony Polskie SA by the subsidiary Stoczek Natura Sp. z o.o. for the overdraft agreement is valid until December 30, 2019 (the previous date is December 31, 2018), and the surety for a revolving non-renewable overdraft agreement is valid until December 29, 2020 (previously due December 29, 2018). The detailed conditions of the surety granted do not differ from the market standards applicable in this respect. The remuneration of Stoczek Natura Sp. z o.o. is a commission for granting the surety.

- Resignation of Stoczek Natura Sp. z o.o. from the implementation of the project entitled "Establishment of a Research and Development Center at Stoczek Natura Sp. z o.o."

In March 2018, Stoczek Natura Sp. z o.o. decided to withdraw from the project "Establishment of the Research and Development Center at Stoczek Natura Sp. z o.o. ", co-financed under Measure 2.1 Support for investments in R&D infrastructure of the enterprises of the Intelligent Development Operational Program, and termination of the subsidy agreement concluded with the Ministry of Investment and Development in September 2017.

The management board of the subsidiary has taken the above-mentioned decision after a detailed material and financial analysis, taking into account other activities and investment projects already implemented and adopted for implementation aimed at the necessary development of the company's operations.

Note No. 38

Remuneration of members of the Management Board and Supervisory Board

THE MANAGEMENT BOARD

Name and Surname	Function	For the period from 01.01 to 31.12.2018		For the period from 01.01 to 31.12.2017	
		constant	variable	constant	variable
Zenon Daniłowski	President of the Management Board	528*	287	579	81
	Total	**815***		**660**	

* including remuneration for performing the function of the President of the Management Board in the subsidiary MP Trade Sp. z o.o .: PLN 108 k in 2018 and PLN 32 k in 2017

SUPERVISORY BOARD

Name and Surname	Function	For the period from 01.01 to 31.12.2018	For the period from 01.01 to 31.12.2017
Roman Sobiecki	Chairman of the Supervisory Board	29	18
Samera Abdelfatah Mohamed El Waziri.- from 03.11.2016	Vice Chairman of the Supervisory Board	30	9
Wiesław Wasilewski	Member of the Supervisory Board	23	14
Marek Rocki	Member of the Supervisory Board	23	14
Michał Słomkowski- from 28.06.2016	Member of the Supervisory Board	23	14
Total		**128**	**69**

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

Members of the Supervisory Board of Makarony Polskie SA did not receive remuneration in subsidiaries. The President of the Management Board of Makarony Polskie SA receives remuneration for performing the function of the President of the Management Board in MP Trade Sp. z o.o.

The Company did not grant loans to members of the Management Board and Supervisory Board of Makarony Polskie SA.

Note No. 39

Significant event after the balance sheet date in the period from 1 January 2018 to the date of submission of these financial statements

After the balance sheet date, there were no events that could significantly affect the Group's financial results.

Note No. 40

Material accounting principles applied in the preparation of the financial statements

TRANSACTIONS IN FOREIGN CURRENCY AND VALUATION OF ITEMS DENOMINATED IN FOREIGN CURRENCIES

The consolidated financial statements are presented in the currency of the primary economic environment in which the entities operate; Polish zloty (PLN) is the functional and reporting currency of the entity, and all values, unless indicated otherwise, are given in PLN k (thousands of zlotys).

Transactions expressed in currencies other than Polish Zloty are calculated to Polish Zloty using the exchange rate applicable at the transaction day.

At the balance sheet date, cash assets and liabilities expressed in currencies other than Polish Zloty are converted to Polish Zloty using the average exchange rate applicable at the end of the reporting period for the given currency, announced by Narodowy Bank Polski [The National Bank of Poland]. The exchange rate differences caused by the conversion are properly posted in the financial incomes (costs) item. or, in cases specified in the accounting principles (policy), capitalized in the value of assets. Non-cash assets and liabilities posted according to historical costs expressed in foreign currency are shown by the historical exchange rate at the transaction date. Non-cash assets and liabilities posted according to the fair value expressed in foreign currency are converted at the exchange rate on the day of fair value measurement.

OVERRIDING ACCOUNTING PRINCIPLES

The Group applies principles that ensure a reliable and clear presentation of the property and financial situation, financial result and profitability.

Principle of continuity - based on the application of continuously adopted accounting principles, including the same grouping of business operations, valuation of assets, including depreciation write-downs, liabilities, determination of the financial result and

preparation of financial statements; for each accounting period, the opening balance is equal to the closing balance of the previous period.

Principle of continuation - based on the assumption of the measurement of assets and liabilities and determining the financial result that the entity will continue in the foreseeable future economic activity in not significantly reduced scope, unless it is inconsistent with the actual or legal status.

Principle of accrual - which consists of assigning to the given period all the achieved revenue and related costs, regardless of their due dates.

Principle of prudent valuation - involving the reporting in the result, irrespective of its amount, of any decrease in the utility value, any property components, adjustments caused by permanent price changes, recognition of only undoubted remaining revenues and extraordinary profits and all other costs and extraordinary losses incurred.
The Group uses overriding valuation principles based on the historical acquisition, purchase or production price, except for the valuation of financial assets that are measured at fair value in accordance with IFRS.

REPORTING OBLIGATIONS RESULTING FROM THE ORGANIZATIONAL STRUCTURE

The entity prepares separate financial statements. The Company has no branches that separately prepare the financial statements and does not prepare joint statements.

ACTIVITY SEGMENT REPORTING

In accordance with the requirements of IFRS 8, operating segments should be identified based on internal reports on these elements, which are regularly verified by persons deciding on the allocation of resources to a given segment and assessing its financial results. The Group operates in the following reporting segments: pasta, meat and vegetable preparations, processed vegetables and stuffing, processed fruit products and others.

FIXED ASSETS HELD FOR SALE AND OPERATIONS DURING DISCONTINUATION

Fixed assets held for sale and discontinued operations are assets or groups of assets classified in this category, which are recognized in the financial statements at the lower of their carrying amount or fair value less costs to sell. From the moment of assigning the assets held for sale, the Company ceases to make depreciation write-downs.

Fixed assets and net asset groups, classified as held for sale if their carrying amount will be recovered as a result of a sale transaction rather than as a result of their continuing use. A condition for including assets in this group is an active search for a buyer by the entity's management and a high probability of selling those assets within one year from the date of their qualification, as well as the availability of these assets for immediate sale.

TANGIBLE FIXED ASSETS

Tangible fixed assets include fixed assets and expenditure on fixed assets under construction, which entities intend to use in their operations and for administrative purposes over a period of more than one year, which in the future will cause economic benefits to entities. They are recognized at purchase prices or costs incurred for their generation, expansion or modernization, decreased by depreciation write-downs made to date, as well as impairment losses. Expenditures on fixed assets include capital expenditure incurred as well as expenditure incurred on future deliveries of machinery, equipment and services related to the generation of fixed assets. The initial value of property, plant and equipment includes their purchase price increased by all costs directly related to the purchase and adaptation of the component to a usable condition (extension and/or construction, modernization, borrowing). Costs incurred after the date the fixed asset is transferred for utilization, such as maintenance and repair costs, burden the statement of total income, at the time of incurring them. The subsequent costs are included in the carrying value of a given asset or recognized as a separate asset (where appropriate) only when it is probable that the asset will generate economic benefits to the Group and the cost of the item can be measured reliably.

Tangible fixed assets are depreciated using the straight-line method in the period of expected use of a given fixed asset. Depreciation of fixed assets occurs according to rates reflecting the expected period of their use. Depreciation begins when a fixed asset is available for use, while depreciation ceases on an earlier of the following: when a fixed asset is classified as held for sale or when it is removed from the balance sheet. The depreciation method, depreciation rate and residual value are subject to verification as at each balance sheet date. Any changes resulting from the verification performed are recognized as a change in estimates, in accordance with the guidelines contained in IFRS 5 "Non-current Assets Held for Sale and Discontinued Operations" or are removed from the balance sheet. Fixed assets with a value of less than PLN 1,000 are depreciated on a one-off basis in the month in which they were put into use, with the exception of a group of assets with a unit value of less than PLN 3,500, which are depreciated in the period of their economic use, if relevant.

If in the preparation of the financial statements there are circumstances that indicate that the carrying amount of property, plant and equipment may not be recoverable, the assets are reviewed for impairment. If there are indications that impairment may have occurred, and the carrying amount exceeds the estimated recoverable amount, then the value of these assets or cash-generating means to which these assets belong is reduced to the level of recoverable value. An impairment loss is recognized immediately as an expense in the statement of comprehensive revenues under "Other costs".

A given item of property, plant and equipment may be removed from the statement of financial position after its sale or in the case when no economic benefits resulting from further use of such an asset are expected. All profits or losses resulting from removing such assets component from the balance sheet (calculated as the difference between possible incomes on sales net and the balance sheet value of the given item) are included in the statement of total income in the period when such removal took place.

The tangible fixed assets include, but are not limited to:

- real estate, i.e., land, buildings and civil engineering structures,
- acquired right to perpetual usufruct of land,
- machines and devices
- means of transport,
- other movable fixed assets.

Depreciation of fixed assets is calculated using the straight-line method to spread their initial value less the residual value over the estimated periods of their use. Verification of final values and periods of use of fixed assets and relevant adjustments is made at least at the end of each financial year; useful lives for individual components of fixed assets are as follows:

Buildings and structures:	from 10 to 40 years
Machines and devices:	from 5 to 25 years
Means of transport:	from 5 to 10 years
Other fixed assets:	from 4 to 25 years

Investments in foreign fixed assets are depreciated for the duration of the lease, but no longer than for the period of their use.
Land and the right of perpetual usufruct of land are not depreciated.
Depreciation on such values is recognized in profit or loss for the period.

Subsequent outlays on fixed assets increase its book value when it is probable that the Company will obtain economic benefits from this, and the cost of this fixed asset can be reliably estimated.

TANGIBLE FIXED ASSETS LEASING

Fixed assets used under finance lease agreements are depreciated according to the same principles as those applied to own assets. However, if there is not enough certainty that the Company will obtain ownership before the end of the leasing period, then the given component is depreciated in the shorter of the following two periods: estimated period of use of the fixed asset or leasing period.
The lease agreements, according to which the lessor maintains basically all the risk and all benefits resulting from possessing the leased object, are included among the operating lease agreement.

FIXED ASSETS IN PROGRESS

Fixed assets under construction are deemed to be fixed assets in the period of their construction, assembly or improvement of an already existing fixed asset and are valued at the total amount of costs directly related to their acquisition or production, less any impairment losses.

Fixed assets in progress are not subject to amortization until completion of the construction and transfer of the fixed asset for use.

Fixed assets under construction, are presented in the financial statements at the production cost less any possible impairment losses. The production cost includes fees and, for the relevant assets, costs of external financing capitalized in accordance with IAS 23.

COSTS OF EXTERNAL FINANCING

Borrowing costs are capitalized as part of the cost of producing fixed assets. The borrowing costs include interest and foreign exchange gains or losses up to the amount corresponding to the adjustment of the interest cost.

INTANGIBLE ASSETS

Intangible assets include assets of the Company that have no physical form, are identifiable and can be reliably measured and which are expected to generate economic benefits for the entity in the future.

The following are considered intangible assets:

- property rights (including licenses, computer programs, concessions, proprietary copyrights, related rights),
- rights to inventions, patents, trademarks, utility and decorative designs, know-how,
- goodwill,
- costs of completed development works, the result of which will be used to produce new or improved products or technologies.

Intangible assets purchased from a business entity as part of a separate transaction are capitalized according to the purchase price or manufacturing costs (costs of completed development works). With the exception of development works, intangible assets created by the entity on its own are not recognized in assets, and expenditures Expenses related to intangible assets that do not result in improvement or extension of their useful life are recognized as costs at the time they are incurred. Otherwise, they are capitalized. Such a determined value is shown in the financial statements in the assets of the statement of financial position in net value, i.e. less accumulated amortization write-downs, as well as write-downs for permanent impairment.

Intangible assets with a limited period of use are subject to depreciation. The depreciation method used reflects the method of consuming economic benefits from an intangible asset by the Company, however, if it is not possible to reliably determine another way of consuming those benefits, the linear method is used. The adopted depreciation method is applied in a continuous manner in subsequent periods, unless there is a change in the expected method of consuming economic benefits.

The period of use of intangible assets, depending on their type, is limited or indefinite.

If it is limited, depreciation of intangible assets is performed at rates reflecting the expected period of their use. Period estimates and depreciation methods are reviewed at the end of each financial year. If the estimated useful life of an asset differs significantly from previous estimates, the depreciation period is changed.

Useful periods for specific intangible assets are as follows:

Software licenses: from 2 years to 5 years

Property rights: from 2 years to 5 years

The Company does not depreciate intangible assets with an indefinite useful life. They are subjected to annual impairment tests and analysis of whether there are reasons to consider these assets as being used for an indefinite period of time.

In 2018, the export sales of the Company on the Ukrainian market increased by approx. 50% and will continue also in the following years.

IMPAIRMENT OF TANGIBLE AND INTANGIBLE FIXED ASSETS

At each balance sheet date, the Company reviews the carrying amount of fixed assets. If there are premises indicating the possible impairment of property, plant and equipment and intangible assets the recoverable amount of an asset is estimated. The determined amounts of impairment losses reduce the carrying amount of the asset to which they relate and are disclosed in the statement of comprehensive income.

The amount of write-downs is determined as the surplus of the carrying amount of those components over their recoverable amount. The recoverable amount corresponds to the higher of the following values: net selling price less costs to sell or utility value. When determining the utility value, the estimated future cash flows are discounted to the present value using a gross discount rate reflecting the current market value of money over time and the risk associated with the given asset component.

For assets that do not generate cash flows themselves, the recoverable amount is estimated in proportion to the value of cash-generating means.

The write-downs are reversed if the reasons justifying their creation disappear. The effects of the reversal of write-downs are recognized in the profit and loss account, except for the amounts previously reducing the revaluation reserve, which adjust this capital to the amount of realized decreases.

Financial assets

Classification of financial assets

Financial assets are classified into the following valuation categories:

- measured at depreciated cost,
- measured at fair value through profit or loss
- measured at fair value through other total income.

The entity classifies a financial asset based on the entity's business model for the management of financial assets and characteristics arising from the cash flows contract for a financial asset (the so-called "SPPI criterion"). The entity reclassifies investments in debt instruments if, and only if, the management model for those assets changes.

Valuation for the moment of initial recognition

With the exception of certain trade receivables, at the moment of initial recognition, an entity measures a financial asset at its fair value which, in the case of financial assets not carried at fair value through profit or loss, it is increased by transaction costs which can be directly attributed to the purchase of those financial assets.

Discontinuation of recognition

Financial assets are excluded from accounting books in the situation when:

- Rights to obtain cash flows from financial assets have expired, or
- Rights to obtain cash flows from financial assets have been transferred and the Group has transferred substantially all the risks and profits related to ownership.

Valuation after initial recognition

For the purpose of valuation after initial recognition, financial assets are classified in one of the following categories:

- Debt instruments are measured at depreciated cost,
- Debt instruments are measured at fair value by other comprehensive income,
- Equity instruments are measured at fair value by other comprehensive income,
- Financial assets at fair value through profit or loss

Debt instruments - financial assets at depreciated cost

A financial asset is measured at depreciated cost if both of the following conditions are met:

a) the financial asset is maintained in accordance with the business model whose purpose is to maintain financial assets to obtain cash flows arising from the contract, and

b) contractual terms relating to a financial asset cause cash flows to occur on specified dates, which are only repayment of the principal and interest on the outstanding principal.

To the category of financial assets measured at depreciated cost, the Company classifies:

- trade receivables.
- loans that meet the SPPI classification test, which, according to the business model, are reported as held to generate cash flows,
- cash and cash equivalents

The interest income is calculated using the effective interest rate method and is shown in the profit and loss account/statement of total income under "Interest income" item.

Debt instruments - financial assets are measured at fair value by other comprehensive income,

A financial asset is measured at fair value by other comprehensive income if both of the following conditions are met:

a) the financial asset is maintained in accordance with the business model, which aims to both receive cash flows resulting from the agreement and the sale of financial assets components; and

b) contractual terms relating to a financial asset cause cash flows to occur on specified dates, which are only repayment of the principal and interest on the outstanding principal.

Interest income, foreign exchange differences and impairment gains and losses are recognized in profit or loss and calculated in the same way as financial assets measured at depreciated cost. Other changes in fair value are recognized in other comprehensive income. Upon cessation of the recognition of a financial asset, the total profit or loss previously recognized in other comprehensive income is reclassified from equity to the financial result.

The interest income is calculated using the effective interest rate method and is shown in the profit and loss account/statement of total income under "Interest income" item.

To the category of debt instruments measured at fair value by other comprehensive income, the Company classifies derivatives.

Equity instruments - financial assets are measured at fair value by other comprehensive income,

At the time of initial recognition, the Company may make an irrevocable choice regarding the recognition in other comprehensive income of subsequent changes in the fair value of investments in an equity instrument that is not intended for trading or is a conditional consideration recognized by the acquirer in the merger of entities to which IFRS 3 applies . Such selection is made separately for each equity instrument. Accumulated profits or losses previously recognized in other comprehensive income are not reclassified to profit or loss.

Dividends are recognized in the profit and loss account/statement of comprehensive income when the entity's right to receive a dividend is established, unless the dividends obviously represent the recovery of part of the investment costs.

To the category of equity instruments measured at fair value by other comprehensive income, the Company classifies stocks and shares in unlisted companies.

Financial assets at fair value through profit or loss

A financial asset that does not meet the measurement criteria at depreciated cost or at fair value through other comprehensive income is measured at fair value by profit or loss.

The profit or loss on the valuation of debt investments at fair value is recognized in profit or loss.

Dividends are recognized in the profit and loss account/statement of comprehensive income when the entity's right to receive a dividend is established.

To the category of equity instruments measured at fair value by the financial result, the Company classifies shares of companies listed on an active market.

In a situation where the Group:

- it has a legally enforceable right to compensate the recognized amounts and
- it intends to settle on a net basis or at the same time to realize an asset and perform an obligation

the financial asset and financial liability are compensated and disclosed in the statement of financial position at the net amount.

The framework agreement described in IAS 32.50 does not constitute grounds for compensation if both criteria described above are not met.

Impairment of financial assets - accounting policy applied from 1 January 2018

The Group assesses expected credit losses (ECLs) related to debt instruments carried at depreciated cost and fair value by other comprehensive income, regardless of whether there is any indication of impairment.

In the case of trade receivables, the Company applies a simplified approach and measures the write-down for expected credit losses in the amount equal to the expected credit losses over the whole life using the reserve matrix. The Company uses its historical data on credit losses, adjusted by the information about the future, where appropriate.

In the case of other financial assets, the Company measures the write-down for expected credit losses in the amount equal to 12-month expected credit losses. If the credit risk related to a given financial instrument has significantly increased since the initial recognition, the Group measures the write-down for the expected credit losses from the financial instrument in an amount equal to the expected credit losses over the entire lifetime.

At the same time, the Group assesses that default occurs when, for example, the delay in payment exceeds 365 days.

CASH AND CASH EQUIVALENTS

Cash and cash equivalents include cash in bank and cash register and short term investments of initial maturity not exceeding three months.

The balance of cash recognized in the statement of cash flows consists of above specified cash and cash equivalents.

INVENTORIES

Inventories are assets held for sale in the ordinary course of business, being in the process of production for sale and in the form of materials or raw materials used in the production process or in the rendering of services. Inventories include materials, goods, finished products, semi-finished products and work in progress.

Inventories of materials and goods are valued as at the balance sheet date according to the lower of the following two values: the purchase price (production cost) or net realizable value. The net selling price is the selling price in the ordinary course of business, less the estimated costs necessary to make the sale (rebates and discounts, costs related to the adjustment of inventories for sale).

As at the balance sheet date, the valuation of finished products occurs at the level of the actual manufacturing cost, applying the principles of prudent valuation.

If the purchase price or technical production cost of inventories is higher than the net selling price possible to obtain, the entity makes revaluation write-downs, which adjust the own cost of sales.

Release of materials, goods and finished products from the warehouse occurs successively at prices (costs) of those assets that the entity acquired (manufactured) at the earliest - fifo method

RECEIVABLES

As part of receivables, the Group recognizes rights to remuneration in exchange for goods or services which it has provided to the customer, if this right is unconditional (the only condition of remuneration being due is the lapse of a specified period). The Company recognizes the receivables in accordance with IFRS 9. Upon initial recognition of contract receivables, any differences between the measurement of receivables in accordance with IFRS 9 and the corresponding previously recognized amount of revenues are recognized by the Company as an expense (impairment loss).

Receivables are recognized depending on the contractual repayment date as:

- long-term - when the repayment period is longer than one year from the balance sheet date,
- short-term - when the repayment is to take place within a period not longer than one year from the balance sheet date.

Trade receivables are initially recognized at fair value, i.e. according to the amounts initially invoiced, and then they are valued at adjusted purchase price (depreciated cost) using the effective interest rate method, reducing them by write-downs for impairment.

Impairment loss of trade receivables is established when there is objective evidence that the Company will not be able to collect all due amounts resulting from the original sales conditions. The amount of the write-down is the difference between the carrying amount of a given asset and the present value of estimated future cash flows, discounted at the effective interest rate. A write-down is created for other operating or financial expenses in the statement of comprehensive income - depending on the type of receivables to which the write-down relates.

Settlements denominated in foreign currencies during the reporting period are valued at the average exchange rate set for a given currency by the President of the National Bank of Poland, valid on the day of the transaction, unless a different rate has been determined in the customs declaration or other binding Company document.

As at the balance sheet date, receivables expressed in foreign currencies are recognized in the books and are valued at the average exchange rate set for a given currency by the National Bank of Poland valid for a given day.

LOANS

Loans are non-derivative financial assets with fixed or determinable payments that are not quoted on an active market. Loans include financial assets created as a result of providing cash, goods or services directly to the other party to the contract, with the exception of financial assets intended for sale in the short term. Loans include loans granted to entities and transactions on "buy sell back" treasury bills. The borrowings are included to current assets unless their maturity does not exceed 12 months since the balance sheet date. Loans of maturity exceeding 12 months since the balance sheet date are accounted for fixed assets. Loans granted are measured at depreciated cost using the effective interest rate, less any impairment losses. Interest accrued is recognized in financial revenues in the period to which it relates. The Company creates revaluation write-downs for the value of dubious interest accrued at the moment of their charging.

FINANCIAL ASSETS VALUED AT FAIR VALUE BY PROFIT OR LOSS

Short-term financial assets valued at fair value by profit or loss include assets acquired in order to achieve economic benefits resulting from short-term price changes. Short-term financial assets are initially recognized at purchase price and measured at fair value as at the balance sheet date. Profits or losses on the measurement of financial assets are recognized in the statement of comprehensive income, in financial revenues or expenses.

INVESTMENTS IN SECURITIES

Investments in securities are valued at the date of the initial recognition at the purchase price adjusted for transaction costs. If the security is delivered after a strictly defined period of time after the transaction date, investments in securities are recognized in the books and excluded from the books on the date of the purchase or sale of securities.

As at the balance sheet date, investments in securities are classified as held for trading or available for sale, measured at fair value. When securities are classified as held for trading, gains and losses resulting from changes in fair value are recognized in the statement of comprehensive income for a given period.

In the case of assets available for sale, profits and losses resulting from changes in their fair value are recognized directly in equity until the sale of securities or recognition of

impairment. Then the accumulated profits or losses previously recognized in equity are recognized in the statement of comprehensive income.

Investments held to maturity are financial assets not accounted for derivative instruments, of fixed or possible to be fixed payments. and fixed maturity, which the Management Board intends and is able to hold until maturity.

Short-term investments to be held until maturity (e.g. bonds, debt certificates) are measured at depreciated acquisition price determined using the effective interest rate method. In determining the depreciated purchase price the discount or bonuses obtained on acquisition of the investment are considered and settled during the period of its life to maturity.

COSTS PREPAYMENTS

The Group activates and settles over time the expenses incurred or the consumption of property components that relate to the periods following the month in which they were incurred.

To prepayments the Company classifies, among others:

- costs and fees related to specific periods (taxes, fees, insurance, subscriptions),
- costs of prepaid public advertising in the media,
- financial costs settled over time (pre-paid interest or bank commissions, expenses related to the purchase of shares and costs of mergers until the investment is settled).

EQUITY

Equity is created and reported in accordance with the law and the company's articles of association.

The equity consists of:

- the Company's share capital is reported in the nominal value of registered shares, resulting from the Company's Articles of Association and entry into the National Court Register,
- supplementary capital (from the sale of shares above their nominal value, supplementary capital created by law - up to 1/3 of the share capital, supplementary capital created in accordance with the statute derived from the distribution of profit and
  from the transfer of the reserve capital from revaluation of sold and liquidated fixed

assets,

- retained earnings/losses, made up of undistributed profit or uncovered loss from previous years,
- net profit or loss.

Share issue costs incurred with the assumption of the Company or increase of the share capital reduce the supplementary capital to the amount of surplus of the issue value over the nominal value of shares, and the remaining part is included in financial costs.

INTEREST-BEARING LOANS AND BORROWINGS

At the moment of initial posting, all bank credits, loans and debt securities shall be posted according to the fair value, reduced by costs related to obtaining the credit or loan.
After the initial posting, the interest bearing credits, loans and debt securities and liabilities are assessed according to the amortized cost using the method of effective interest rate. When establishing the amortized cost, one considers the costs related to obtaining the credit or loan and discounts or premiums obtained while settling the liability.
Income and expenses are recognized in profit or loss when the liability is removed from the balance sheet and as a result of the settlement using the effective interest rate method.

LIABILITIES AND ACCRUALS

Liabilities are liabilities resulting from past events to provide services with a reliably determined value, which will result in the use of already existing or future assets of the Company.

Short term liabilities by virtue of supplies and services are posted in the depreciated cost. Financial liabilities assessed according to the fair value by the financial result, include financial liabilities held for trading and financial liabilities initially classified as those measured at fair value by profit or loss. Financial liabilities are classified as held for trading if they were acquired for the purpose of selling in the near future. Derivative instruments, including separated embedded instruments, are also classified as held for trading, unless they are hedging instruments.

The financial liabilities assessed in fair value by the financial result are assessed in fair value considering their market value at the balance sheet date, without taking into account the costs of the sale transaction. Changes in the fair value of those instruments are recognized in profit or loss as financial costs or income, except for changes in credit risk for financial liabilities

initially classified to the category measured at fair value by profit or loss, which from 1 January 2018 are recognized in other total income.

Other financial liabilities which are not financial instruments assessed in the fair value by the financial result, are assessed according to the depreciated cost using the method of effective interest rate.

The Group excludes a financial liability from its balance sheet when the liability expired - that is when the obligation specified in the contract has been fulfilled, canceled or expired. Replacement of an existing debt instrument by an instrument with substantially different terms made between the same entities is recognized by the Company as the expiration of the original financial liability and the recognition of a new financial liability.

Prior to 1 January 2018, material modifications to the terms of the agreement regarding the existing financial liability were recognized by the Company as expiration of the original and recognition of a new financial liability. The difference in respective carrying amounts resulting from the conversion was recognized in profit or loss.

From 1 January 2018, in the event of a modification of the contractual terms of a financial liability that does not result in the cessation of an existing liability, the gain or loss is recognized immediately in the financial result. Profit or loss is calculated as the difference between the present value of the modified and original cash flows, discounted using the original effective interest rate of the liability.

Other non-financial liabilities include, in particular, liabilities to the tax office in respect of value added tax, social security, etc., as well as liabilities due to advances received, which will be settled through the delivery of goods, services or fixed assets. Other non-financial liabilities are recognized at the amount due.

PROVISIONS

The reserves are created when the Company is burdened with an obligation (legal or customary) resulting from the past events, and when it is probable that meeting this obligation shall cause the outflow of funds and reliable estimation of the liability amount may be performed.

In case the money in time has a significant impact on the amount of the provision created, value of reserve is set by discounting the expected future cash incomes at the current value, using the gross discount rate reflecting the actual market prices of the value of money in time and possible risk related to the given liability.

In particular, the Group creates provisions for:

- certain or highly probable future liabilities, the amount of which can be reliably estimated, and in particular the losses from business operations in progress, including guarantees granted, sureties, lending operations, effects of pending court proceedings,
- future liabilities due to benefits for employees, in particular for retirement and pension severance pays,
- unused annual leave.

PROVISIONS FOR EMPLOYEE BENEFITS

The vast majority of employees employed by the Company are entitled to retirement benefits after the employment period. The payer of future retirement benefits is both the Company and separate pension funds. In the case of a pension scheme implemented by a pension fund, the Company's obligation is limited to the payment of fixed contributions.

In the case of a retirement benefit plan implemented by the Company for its employees, the Company is required to provide specific, future retirement benefits in the form of retirement or pension benefits.

Benefits related to the payment of specific contributions, which are transferred to pension funds to employees, are charged to the costs of the core business in the reporting period to which they relate. Difference between the costs incurred in respect of benefits and the value of transferred contributions to pension funds in a given reporting period was recognized in the balance sheet as receivables or liabilities.

The Group uses an actuarial valuation (based on a valuation prepared by an independent actuarial advisor) to determine the present value of future liabilities and the related costs of the current period. The valuation of provisions for employee benefits is based on the projected unit credit method taking into account the requirements of International Financial Reporting Standards and International Accounting Standards, in particular IAS 19.

Provisions are measured based on the present value of future liabilities of entities for employee benefits.

The basis for the valuation are the Company's internal regulations, in particular the Remuneration Regulations and the relevant legal provisions.

LEASING

The financial lease agreements, which transfer all the risk and all benefits resulting from possessing the leased item to the Company, are included in the Company's assets at the date the leasing starts according to the lesser of the below two values: fair value of the fixed asset representing the object of lease or current value of minimum leasing fees. Lease payments are divided into financial costs and reduction of the balance of lease liabilities in the way that enables obtaining fixed interest rate on the remaining part of the liability. The financial costs are included directly in the statement of comprehensive income. Fixed assets used based on the financial lease agreements are depreciated for one of the below periods: estimated lifetime of the fixed asset or lease period. The lease agreements, according to which the lessor maintains basically all the risk and all benefits resulting from possessing the leased object, are included among the operating lease agreement. The lease fees under the operating lease and further lease instalments are included as costs in the statement of comprehensive income using the linear method within the period the lease is in force.

REVENUES

Revenues from contracts with customers - accounting policy applied from 1 January 2018

The Group applies IFRS 15 Revenue from contracts with customers to all contracts with customers, with the exception of leasing agreements covered by the scope of IFRS 16 Leases, financial instruments and other contractual rights or obligations falling within the scope of IFRS 9 Financial Instruments, IFRS 10 Consolidated Financial Statements, IFRS 11 Joint Findings contractual, IAS 27 Separate Financial Statements and IAS 28 Investments in Associates and Joint Ventures.

The basic principle of IFRS 15 is the recognition of revenues at the moment of the transfer of goods and services to the customer, in a value reflecting the price expected by the entity, in exchange for the transfer of those goods and services. Those rules are applied using the five-step model:

- a contract with a customer has been identified,
- obligations to perform the service under the contract with the customer have been identified,
- transaction price was determined,
- transaction price was allocated to individual obligations to perform the service,

- revenues were recognized when the contractual obligation was fulfilled.

Identification of the contract with the customer

The Group recognizes the contract with the customer only if all of the following criteria are met:

- the parties to the contract have entered into a contract (in writing, or in accordance with other usual commercial practices) and are required to perform their duties;
- The Company is able to identify the rights of each party regarding goods or services to be transferred;
- The Company is able to identify the payment terms for goods or services to be transferred;
- the contract has economic content (i.e. it can be expected that as a result of the contract the risk, schedule or amount of future cash flows of the entity will change); and
- it is probable that the Company will receive a remuneration which it will be entitled to in exchange for goods or services that will be transferred to the customer.

When assessing whether the receipt of the amount of remuneration is probable, the Company only considers the ability and intention to pay the amount of remuneration by the customer in a timely manner. The amount of remuneration that will be due to the Company may be lower than the price specified in the contract, if the remuneration is variable, because the entity may offer the customer a price concession.

Identification of obligations to perform the service

At the time of concluding the contract, the Company evaluates the goods or services promised in the contract with the customer and identifies as a commitment to perform each promise to transfer to the customer the good or service (or bundle of goods or services) that can be separated or groups of separate goods or services, which are basically the same and for which the transfer to the customer is of the same nature.

The good or service promised to the customer is separate if both of the following conditions are met:

- the customer can benefit from the good or service either directly or through links to other resources that are readily available thereto, and
- the Company's obligation to transfer the good or service to the customer can be identified as separate from other obligations specified in the contract.

Determination of the transaction price

In order to determine the transaction price, the Company takes into account the terms of the contract and the usual commercial practices. The transaction price is the amount of remuneration which, in line with the Company's expectation, will be due in exchange for the transfer of the promised goods or services to the customer, with the exception of amounts

collected on behalf of third parties (for example, some sales taxes). The remuneration specified in the contract with the customer may include fixed amounts, variable amounts or both.

Variable remuneration

If the remuneration specified in the contract includes a variable amount, the Company estimates the amount of remuneration to which it will be entitled in exchange for the transfer of promised goods or services to the customer. The Company estimates the amount of variable remuneration using one of the following methods, depending on which of them allows the Company to more accurately predict the amount of remuneration to which it is entitled:

- expected value - the expected value is the sum of the products of the possible remuneration amounts and the corresponding probabilities of occurrence. The expected value may be an appropriate estimate of the amount of variable remuneration if the Company has a large number of similar contracts.
- the most probable value - the most probable value is the single, most likely amount from the range of possible remuneration amounts (i.e. the single most probable outcome of the contract). The most likely value may be an appropriate estimate of the amount of variable remuneration if the contract has only two possible outcomes (for example, the Company either earns a performance bonus or not).

The Group includes to the transaction price part or all of the variable remuneration only to the extent that it is highly probable that there will be no reversal of a material portion of the previously recognized cumulative revenues when the uncertainty about the amount of variable remuneration has ceased.

Assigning the transaction price to the obligations to perform the service

The Company assigns a transaction price to each obligation to provide the service (or a separate good or separate service) in an amount that reflects the amount of remuneration which, in line with the Company's expectation, is due in exchange for the transfer of the promised goods or services to the customer.

Fulfilling obligations to perform

The Group recognizes revenue when it fulfills (or in the course of fulfilling) the obligation to perform by transferring the promised good or service to the customer. With respect to contracts for continuous services, on the basis of which the Company has the right to receive remuneration from the customer in an amount that directly corresponds to the value of the customer's previous performance, the Company recognizes revenue in the amount it has the right to invoice

Remuneration of the principal and remuneration of the intermediary

If another entity is involved in providing goods or services to the customer, the Group determines whether the nature of the Company's promise is an obligation to provide certain goods or services (in this case, the Company is the principal) or to provide those goods or services on behalf of another entity (in this case, the Company is an intermediary).

The Company is the principal if it exercises control over the promised good or service before it is passed on to the customer. However, an entity does not have to act as principal if it obtains a legal title to the product only temporarily before it is transferred to the customer. An entity appearing in the contract as the principal may itself fulfill the obligation to perform the service or may entrust the fulfillment of this obligation or part thereof to another entity (e.g. subcontractor) on its behalf. In such a situation, the Company recognizes revenues in the amount of gross remuneration to which it is expected to be entitled in exchange for goods or services transferred.

The Company acts as an intermediary if its obligation to perform the service consists in ensuring delivery of goods or services by another entity. In such a case, the Company recognizes revenue in the amount of any fee or commission to which it is expected to be entitled in exchange for ensuring delivery of goods or services by another entity.

Variable remuneration

Some contracts with customers include variable amounts of remuneration in connection with the granting of discounts and rebates.

If the remuneration specified in the contract includes a variable amount, the entity estimates the amount of remuneration to which it will be entitled in exchange for the transfer of promised goods or services to the customer and includes part or all of the variable remuneration in the transaction price only to the extent that it is highly probable that there will be no reversal of a material part of the amount of previously recognized accumulated revenues when the uncertainty about the amount of variable remuneration has ceased.

The entity estimates the amount of variable remuneration using the expected value method.

Material financing component

In the case of contracts with customers for which the period between the transfer of the promised good or service to the customer and the moment of payment for the good or service exceeds one year, the Company. In order to determine the transaction price, the Company adjusts the promised amount of remuneration by an important component of financing using a discount rate that would be applied if a separate financing transaction was concluded between the entity and its customer at the time the contract was concluded.

The Group decided not to adjust the promised amount of remuneration by the impact of a material element of financing, if at the time of contract it is expected, that the period from the transfer of the promised good or service to the customer until payment for the good or service by the customer will not be more than one year. Therefore, the Company did not separate a material element of financing, for short-term advances.

Non-cash remuneration

In the case of contracts in which the customer undertook to pay remuneration in a form other than cash, the Company measures the non-monetary remuneration (or the promise to pay non-cash remuneration) at fair value in order to determine the transaction price. In a situation where the Company cannot rationally estimate the fair value of non-cash remuneration, it measures them indirectly by reference to the individual selling price of goods or services promised to the customer (or customer class) in return for remuneration.

Guarantees

The Group provides a guarantee for sold products, which is to assure the customer that the product complies with the specifications set by the parties. The Company recognizes such guarantees in accordance with IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*.

Some non-standard customer contracts contain extended guarantees. Such guarantees constitute a separate service - recognized as a commitment to perform the service to which a part of the transaction price is assigned.

Activated costs of making concluding a contract

The Group recognizes the additional costs of making concluding a contract with the customer as an asset, if it is expected that it will recover it. The additional costs of concluding a contract are costs incurred by the entity in order to make conclude a contract with the customer that the entity would not incur if the contract was not concluded. Additional costs of concluding a contract include, for example, costs of advisory services. The costs of making the contract concluded incurred regardless of whether the contract has been concluded are recognized as costs at the time they are incurred, unless the costs are clearly borne by the customer regardless of whether the contract is concluded. The Company recognizes additional costs of concluding a contract as costs when incurred, if the depreciation period of an asset that would otherwise have been recognized by the Company is one year or less. The asset is systematically depreciated, taking into account the period of transferring goods or services to the customer with which it is associated. The Company updates the depreciation period to reflect a material change in the expected period of transferring to the customer goods or services to which the asset relates.

Assets under the contract

As part of the assets under the contract, the Group recognizes rights to remuneration in exchange for goods or services which it has provided to the customer, if this right depends on a condition other than the lapse of time (for example from the future benefits of the entity). The Company assesses whether the asset of the contract has not been impaired in the same manner as in the case of a financial asset in accordance with IFRS 9.

Receivables

As part of receivables, the Group recognizes rights to remuneration in exchange for goods or services which it has provided to the customer, if this right is unconditional (the only condition of remuneration being due is the lapse of a specified period). The Company recognizes the receivables in accordance with IFRS 9. Upon initial recognition of contract receivables, any differences between the measurement of receivables in accordance with IFRS 9 and the corresponding previously recognized amount of revenues are recognized by the Company as an expense (impairment loss).

Liabilities under the contract

As part of the contractual obligations, the Group recognizes the remuneration received or due from the customer, which involves the obligation to provide the customer with goods or services.

Assets due to the right of return

As part of the assets under the right of return, the Company recognizes the right to recover products from customers after fulfilling the obligation to return the payment.

Obligation to return remuneration

The Group recognizes the obligation to return the remuneration if after receiving it expects to return part or all of it to the customer. The obligation to pay the remuneration is measured in the amount of remuneration (or receivable) received, to which - according to the entity's expectation - it is not entitled (i.e. in the amount is not included in the transaction price). The liability to return the remuneration (and the relevant change in the transaction price and the resulting change in the contractual obligation) is updated at the end of each reporting period due to changes in circumstances.

DIVIDENDS

Dividends are posted at the moment of establishing the rights of shareholders until their collection.

CURRENT TAX

Liabilities and receivables by virtue of current tax for the current period and previous periods are assessed in the amount of expected payment in aid of tax bodies (subject to return from the tax bodies) using the tax rates and regulations which legally or factually were in force at the balance sheet date.

The current tax burden is calculated on the basis of the tax result (tax base) of a given financial year. The tax base differs from gross profit (loss) in connection with the exclusion of taxable income and costs that are tax deductible costs in the following years and items of costs and revenues that will never be included in the tax return. The tax charges are calculated based on the provisions and tax rates applicable in a given financial year.

DEFERRED TAX

For financial reporting purposes, income tax is calculated using the method of balance sheet liabilities in relation to all temporary differences present at the balance sheet date between the tax value of assets and liabilities and their balance sheet value shown in the financial statement.

Reserve for the deferred tax is posted in relation to all positive temporary differences:

- except the situation where the reserve for deferred tax is created as a result of the initial posting of the goodwill and initial posting of assets component of liability during transaction that does not represent the merge of economic entities and when it is concluded, they have no effect either on the gross financial result, taxable income or tax loss, and
- in case of negative temporary differences resulting from the investment in subsidiaries, except the situation where the period of inverting the temporary differences are subject to the investor's control and where it is probable that in the predictable future, the temporary differences shall not invert.

Assets by virtue of deferred tax are posted in relation to all negative temporary differences as well as not used reliefs and not used tax losses transferred to the following years in the amount in which it is probable that the taxable income shall be obtained that shall allow to use the above mentioned difference, reliefs and losses:

- except the situation where the assets by virtue of the deferred tax related to negative temporary differences are created as a result of the initial posting of the assets or liabilities component during transaction that does not represent the merge of economic entities

and when it is concluded, they have no effect either on the gross financial result, taxable income or tax loss, and

- in case of negative temporary differences by virtue of the investment in subsidiaries, assets component by virtue of deferred tax is posted in the balance sheet only in the amount in which it is probable that in the predictable future, the above mentioned differences shall invert and taxable income shall be obtained that shall allow deducting negative temporary differences.

The balance sheet value of the assets component by virtue of deferred tax is verified at each balance sheet date and is subject to gradual reduction by the amount which is no longer probable to obtain the taxable income sufficient to partially or completely execute the assets component by virtue of deferred income tax.

Assets by virtue of the deferred income tax and the provisions for the deferred tax are assessed using the tax rates which according to expectations shall be in force during the period when the assets component shall be executed or reserve settled, assuming as the base the tax rates (and tax regulations) applicable at the balance sheet date or which applicability in the future is sure at the balance sheet date.

The income tax related to the items posted directly in equity is posted in the equity, not in the statement of comprehensive income.

TAX ON GOODS AND SERVICES

Incomes, costs, assets are posted after reducing by the goods and services tax value, except:

- when the goods and services tax paid during the purchase of assets or services is not possible to be recovered from the tax bodies; then it is posted appropriately as a part of the purchase price of assets component or as a part of cost item
- - receivables and liabilities which are disclosed in the statements considering the goods and services tax amount.

The goods and services tax amount that is possible to be recovered or payable in aid of the tax bodies is posted in the statement of financial position as a part of receivables or liabilities.

Note No. 42- numeracja do poprawy i

Goals and principles of managing the financial risk

The main financial instruments used by the Company include bank loans, factoring and cash. Their main objective is to provide financial resources for the company's core business. The Company possess also other financial instruments, such as receivables and liabilities by virtue of supplies and services, which are created directly within the course of the run business.

The current financial situation of the Company, its production potential and market position create opportunities for further development, however, there are many factors, especially those of an external nature, which may directly or indirectly affect the financial results achieved in subsequent years.

The risk of changes in market trends

The risk may be a possible change in shopping and eating habits of consumers, e.g. due to rising prices or widely published information on the health benefits of a given product category.

Current market trends are monitored on a regular basis. The Group's companies quickly and flexibly match their offer to them, both in terms of the products themselves and their production technology. The current product range of the Group is modified in line with market trends, e.g. health-related products, "Fit", products with reduced gluten content, pasta with flavors and ancient cereals (e.g. spelled, buckwheat), products based on, or with addition, vegetable flour are systematically developed.

Risk related to competition

All areas of the Makarony Polskie Group's operations belong to highly competitive segments. There is a risk that the intensified actions of competitors, manifested mainly in the deterioration of trading conditions will affect the profitability and revenues of the Group, may affect the achievement of objectives assumed by the Group. All activities of the competitive environment are monitored and analyzed on an ongoing basis, which allows for quick response in the area of possible threats.

The Group attempts to minimize this risk by diversifying its activities and developing innovative products (including teams designed to run R&D projects).

Risk of dependence on recipients

A significant part of revenues is generated by the Group through cooperation with organized and centrally-decisive retail chains. A possible lack of continuity of cooperation with customers may affect the amount of revenues. Some commercial contracts do not contain a strictly determined amount of estimated purchases that the recipient will make during the term of the contract. There is a risk that recipients will submit orders that deviate quantitatively from the monthly plans adopted by the Group. This may result in the inability to meet demand or incomplete use of production capacity, which will have an impact on the results. In the Group's opinion, this risk is not significant, as the number of products delivered so far has not been subject to significant fluctuations per year, shaping the foreseeable limits. In addition, the Group companies conduct systematic actions towards the diversification of customers and increasing the number of so-called medium-sized customers.

Risk related to changes in raw material prices

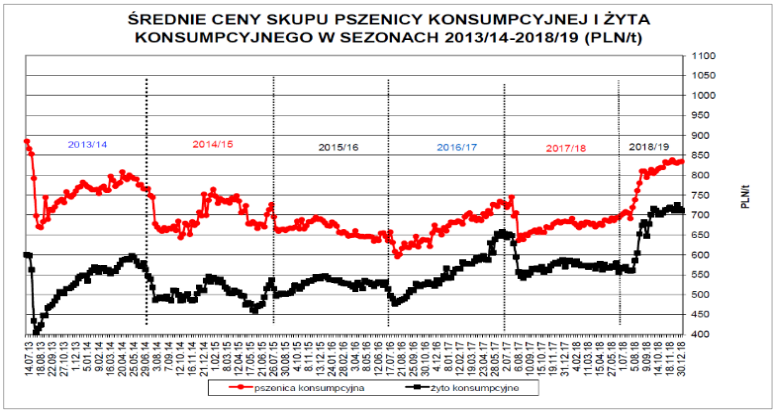
The Makarony Polskie Group consistently strives to implement its strategy in the area of securing the raw material prices with long-term purchase contracts in annual and semi-annual periods, which helps to prevent material decreases in the profitability of the pasta produced. With regard to the current situation on the cereal market, the Company also regularly monitors forecasts concerning both the domestic market and prices of wheat on global markets.

During the year 2018, Makarony Polskie SA had concluded forward contracts for the delivery of flour in the first half of 2018, which allowed it to maintain the purchase price of the raw material at a stable level during this period. However, due to unfavorable weather conditions prevailing in 2018 (alternating droughts and heavy rains in the wrong period of cereal growth), which influenced the level and quality of harvests, in the third and fourth quarter of 2018, the market experienced a sharp rise in wheat prices. A large part of flour producers was not interested in concluding contracts in semi-annual or annual periods. The remaining producers, bearing in mind the increase in wheat prices, proposed very high flour prices for such contracts. Taking the above into account, after an in-depth market analysis (a large amount of wheat collected in Poland, no exports, lower wheat prices in neighboring countries), the Makarony Polskie Group decided to buy flour on a monthly basis, on the so-called spot.

In the first quarter of 2019, the prices of purchase of flour were stable, however, they remained at a high level, similar to that from the fourth quarter of 2018. A slight downward trend occurred in March 2019, and information from European and non-European cereal markets indicates that this trend should also continue in the coming months. Regardless of the above, Makarony Polskie SA is aware that wheat production is highly sensitive to unpredictable weather conditions, therefore prices are subject to increases due to possible

speculations or natural disasters, which is why the forecasts concerning both the domestic market will be monitored on an ongoing basis. as well as prices of consumer wheat on global markets.

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



Source: Weekly report on the market for cereals, oilseeds and feed materials - Cereal market week 01'2019, Sparks Polska

The egg mass market, after material increases in the price of egg pulp (by 250-260%, to the level of PLN 10.0-11.2 k for one ton of weight) in the last months of 2017, caused by the withdrawal of large batches of eggs contaminated with nitrofen from the EU market and by the removal of large flocks of laying hens, stabilized in the first half of 2018, and then a systematic drop in prices was observed.

Taking into account the current market trends, the Company decided not to enter into long-term contracts and in 2018 made purchases on a monthly basis, on the spot.

At the end of Q4 2018, the price of egg pulp amounted to PLN 3.8-4.2 k for one ton of egg pulp. In Q1 2019 there was a slight increase in prices, which resulted, among others, from the increased demand for eggs before Easter. Current prices of the egg pulp on the market are at the level of PLN 4.2-4.8 k for one ton of egg pulp. In the next few months, the egg market should be stable with a slight downward tendency - due to the growing production associated with a material increase in the number of laying hens and a decrease in egg exports.

Stoczek Natura Sp. z o.o. is a producer of fruit and vegetable preserves (including jams and salads) and ready meals. The prices of fruit and vegetables are strongly dependent on weather conditions. The Company cooperates with domestic fruit and vegetable suppliers, it also has an extensive database of foreign suppliers of key raw materials, which gives the Company greater opportunities to obtain cheap, good quality raw materials. Purchase of fruit and vegetables is performed seasonally, in months in which their prices are the lowest. If

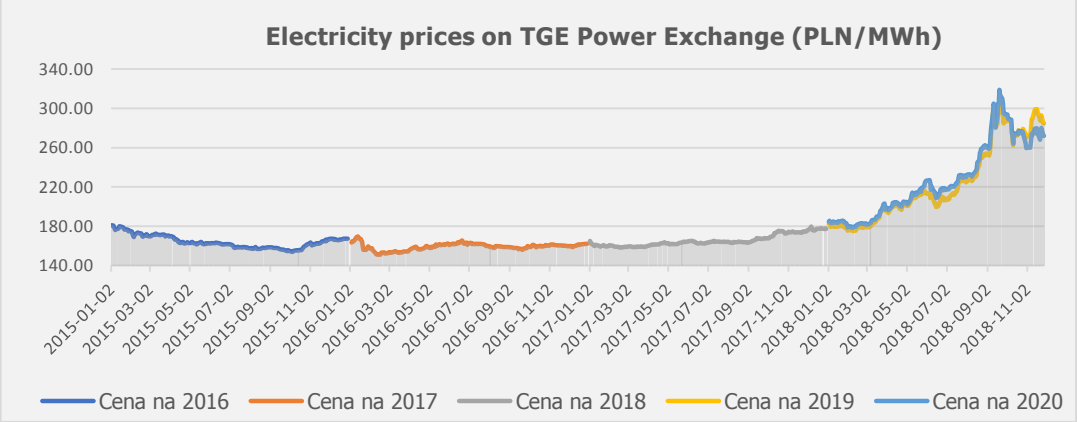
necessary, purchased raw materials are stored in Company warehouses and cold stores. Stoczek Natura Sp. o.o. is exposed to the increase in raw material prices resulting from various types of weather anomalies. Aiming at minimizing this risk, the Company maintains an extensive base of suppliers of key raw materials. In addition, Stoczek Natura Sp. z o.o., striving to optimize the operation of the plant, provides for the possibility of outsourcing the production of those categories of fruit and vegetable products, whose market share does not guarantee the Company the optimal use of existing production capacity and purchase of raw materials at attractive prices.

Risk related to changes in electricity prices

One of the material production costs is the cost of electricity purchase. The Makarony Polskie Group consistently strives to implement its strategy in the area of securing electricity prices with long-term purchase contracts for a period of at least one year, which helps to prevent material decreases in the profitability of the pasta and other products produced. Obtaining low prices is possible by using various purchase options as part of operating purchasing groups created by Group companies or participation in larger purchasing groups created by various organizations and companies, e.g. by the Podkarpackie Business Club. In previous years, this policy has allowed for material reductions in electricity purchase prices or maintaining its constant level.

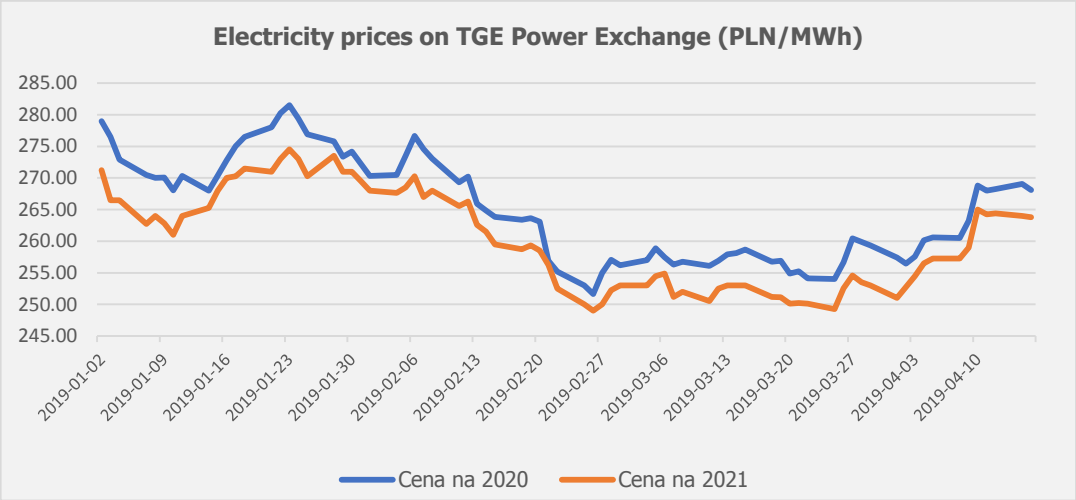
In 2018 material changes occurred on the energy market, which caused a material increase in energy prices on the Polish Power Exchange (hereinafter: TGE). It was caused by several factors, the most material of which is the increase in world coal prices from USD 50 per ton in 2016 to even USD 100 in 2017, the increase in the price of emission permits in Europe in the last year from under EUR 5 per ton to almost 20/25 EUR in 2018.

The chart presents changes in electricity prices on the Polish Power Exchange in the years 2015-2018.



The purchase of electricity on the TGE with such a price level as the one from around June 2018 would result in an increase in the cost of electricity for the Group's companies in 2019 by approximately 40-50%. The intervention of the Polish government, which took place at the end of 2018, most likely (there is still a lack of final legal regulations) will end in the fact that the electricity price for our Group companies will remain at the level of 2018. However, this does not eliminate the threat of an increase in energy prices over a longer period of time.

At the moment there is no binding information of what is planned for 2020. If there is no further government intervention or other system solutions limiting the increase in electricity purchase prices, this may lead to a material increase in the cost of electricity purchase from 2020. Based on current quotations of electricity prices presented in the chart below, this could increase the cost of electricity purchase by 35-45% in 2020 compared to 2018.



The Group's companies closely monitor the development of the market situation in this area in order to purchase energy for the next year or longer. Possible investments in renewable energy sources, trigeneration and cogeneration are also analyzed.

Risk of variable legal and tax environment

The Polish legal and tax system is characterized by frequent changes. An unfavorable factor for the operations of the Group's companies may be the changing legal regulations as well as its various interpretations. Practice shows that the interpretation of legal provisions by tax authorities and judicial decisions in the aspect of taxation is often inconsistent. In the case of companies operating on the Polish market, there is a greater risk of doing business than in countries with stable and well-established legal and tax systems.

The protection of the interests of the Group in terms of legal changes is supervised by legal teams that in due course take appropriate actions aimed at minimizing the possible effects of these changes. Quality teams keep track of all legal regulations regarding products and packaging, and the changes required by law are implemented without unnecessary delay.

Risk related to changes in exchange rates

The Makarony Polskie Group is a semolina importer and exporter of finished products. The sales prices of the Company's products are each time determined and take into account the current value of exchange rates so as to ensure satisfactory sales profitability.

The weakening of the zloty may have a negative impact on the profitability level of operations conducted by the Group as an importer. To minimize the risk of changes in foreign exchange rates, the funds obtained by the Group from export sales are used to purchase raw materials outside Poland.

The table presents the currency structure for given classes of financial instruments as at 31 December 2018:

Groups/categories of financial instruments	Carrying amount as at 31.12.2018 PLN k	Currency exposure as at 31.12.2018 PLN k	EUR PLN k	USD PLN k
Financial assets				
Cash and cash equivalents	359	129	73	56
Trade receivables	25 599	2 204	2 204	
Financial liabilities				
Liabilities from deliveries and services	28 611	5 661	5 661	

The table presents the currency structure for given classes of financial instruments as at 31 December 2017:

Groups/categories of financial instruments	Carrying amount as at 31.12.2017 PLN k	Currency exposure as at 31.12.2017 PLN k	EUR PLN k	USD PLN k
Financial assets				
Cash and cash equivalents	1 454	48	48	
Trade receivables	28 619	2 105	2 105	
Financial liabilities				
Liabilities from deliveries and services	26 865	3 908	3 908	

The table presents the analysis of the sensitivity of the financial result to changes in exchange rates as at 31 December 2018:

Groups/categories of financial instruments	EUR	USD

	5%	-5%	5%	-5%
	Impact on the financial result PLN k		Impact on the financial result PLN k	
Financial assets				
Cash and cash equivalents	4	-4	3	-3
Trade receivables (gross)	110	-110	-	-
Financial liabilities				
Liabilities from deliveries and services	- 283	283	-	-

The table presents the analysis of the sensitivity of the financial result to changes in exchange rates as at 31 December 2017:

Groups/categories of financial instruments	EUR		USD	
	5%	-5%	5%	-5%
	Impact on the financial result PLN k		Impact on the financial result PLN k	
Financial assets				
Cash and cash equivalents	2	-2	-	-
Trade receivables (gross)	105	-105	-	-
Financial liabilities				
Liabilities from deliveries and services	-195	195	-	-

Risk related to remuneration pressure

Systematic increases in the minimum wage and the minimum hourly rate on civil law contracts cause that wage pressure increases among employees and potential job candidates. This phenomenon is compounded by the fact that the labor market is tilting more and more towards the employee's market. Employers, including Group companies, more often have difficulty finding suitable candidates for vacant positions, both among specialists and managerial staff as well as among unskilled people.

Aiming at minimizing staff rotation, especially among key employees and specialists, the Group is trying to systematically implement motivational remuneration systems (combined with, among others, production and sales efficiencies), which by closely associating the results of individual teams/people with the effectiveness of achieving the Group's goals entrusted to those teams/employees, allow to combine the level of wages satisfying employees with the profitability of the company's operations. In order to increase motivation and build employee loyalty towards the employer, the Group companies systematically diversify the package of non-financial benefits, such as sports cards, group insurance, holiday cards or private medical care, in order to best match it to the needs and expectations of employees.

The risk of economic (moral) and physical wear of machinery and equipment and the loss of their market value

Many domestic producers have recreated, expanded or are planning to modernize their technology and engineering park in connection with the possibilities of obtaining EU funding for this purpose. This is mainly forced by strong competition from producers (domestic and foreign) and market trends, e.g. on the level of new, innovative packaging, energy consumption of the production process, the efficiency of the machines and devices themselves, or the automation of processes handled so far.

Machines and devices currently used in the Group's production plants are fully operational, undergo periodic renovations and modernizations. The Group's companies also keep investing in new fixed assets used in production, which is the result of e.g. response to market needs (investments in new packing machines and carton machines used in the production of pasta, a new labelling machine for jars with non-standard shapes in Stoczek Natura Sp. o.o), however, it mainly concerns maintaining the current production profile of the plants. At the moment, the Group is rapidly replacing and installing a new technology park, and the EU funding will speed up this process.

In order to maintain the market position and meet the growing demand for new, innovative products and packaging, the Group companies applied successfully for EU funds under the 2014-2020 perspective. The Group informed the market with current reports on the subsidies received. The aim is both to modernize the machinery park used as part of the current production profile, as well as to develop new business areas.

However, there is a risk that any delay in the implementation of development projects may result in the loss of the current market position of the Makarony Polskie Group companies.

Interest rate risk

Interest rate risk is the risk of incurring losses as a result of changes in market interest rates and changes in statutory interest rates. Both the amount of revenues and costs of the Group are sensitive to changes in the level of market interest rates.

To a large extent, the Group finances its operations with loans, which increases its sensitivity to the risk caused by interest rate changes in both long-term and short-term financial liabilities.

In 2018, the Group used external financing in the form of bank loans: current, investment and overdrafts.

As at 31 December 2018, the Group had a liability due to loans taken out, in the amount of PLN 24.711 k:

Currency	Interest	Loans balance	Including loans	
			Short-term	Long-term
PLN	WIBOR + bank's margin	24 711	14 170	10 541

The Group has liabilities due to loans for which interest is calculated on the basis of a variable interest rate, and therefore there is a risk of an increase in these rates in relation to the conclusion of the contract.

The structure of financial instruments exposed to the risk of changes in interest rates as at 31 December 2018 is presented in the table below:

Groups/categories of financial instruments	Carrying amount as at 31.12.2018 PLN k	Value at risk as at 31.12.2018 PLN k	WIBOR PLN k
Financial assets			
Cash in hand and at bank	359	-	-
Financial liabilities			
Bank loans	24 711	24 711	24 711
Other financial liabilities	2 173	2 173	2 173

The structure of financial instruments exposed to the risk of changes in interest rates as at 31 December 2017 is presented in the table below:

Groups/categories of financial instruments	Carrying amount as at 31.12.2017 PLN k	Value at risk as at 31.12.2017 PLN k	WIBOR PLN k
Financial assets			
Cash in hand and at bank	1 454	-	-
Financial liabilities			
Bank loans	20 493	20 493	20 493
Other financial liabilities	2 862	2 862	2 862

The table below presents the analysis of the sensitivity of the financial result to changes in interest rates as at 31 December 2018:

Interest rate	Deviation assumptions (in percentage points) 31 December 2018		Value at risk as at 31.12.2018 PLN k	Impact on the financial result 31 December 2018	
				PLN k	PLN k
WIBOR	1%	-1%	26 884	-268.8	268.8

The table below presents the analysis of the sensitivity of the financial result to changes in interest rates as at 31 December 2017:

Interest rate	Deviation assumptions (in percentage points) 31 December 2017		Value at risk as at 31.12.2017 PLN k	Impact on the financial result 31 December 2017 PLN k	PLN k
WIBOR	1%	-1%	23 355	-233.6	233.6

Credit risk

Credit risk means the risk that the Group's contractors will default on their obligations. The Group applies the principle of making transactions with counterparties whose creditworthiness has been verified and of obtaining, if necessary, an appropriate security as a tool to mitigate the risk of financial loss arising from a breach of agreement. The Group uses financial information available to the public and its own transaction data, assessing the financial condition of its main customers.

The Group's exposure to the risk of counterparties' creditworthiness is constantly monitored; Credit risk control enables limits verified and approved on an ongoing basis within the control structures in the Company. In addition, the Group has covered the selected counterparties by trade receivables insurance granted by one of the major insurers operating in this area on the Polish market.

The Group is not exposed to material credit risk to a single counterparty or a group of counterparties.

Note No. 42
Capital management

The main objective of the company's capital management is to maintain the credit rating and secure capital ratios that would support operational activity and increase the value for its shareholders.

The Group manages the capital structure and introduces changes to it as a result of changes in economic conditions.

In 2018, activities in the area of financing sources were continued, the aim of them was to achieve higher efficiency of their use and reduce the costs of their acquisition. The Group used a wide range of financial instruments:

- bank loans - short- and medium-term and investment loans,
- purchase of receivables (factoring),
- leasing of fixed assets.

The structure of financing sources has been subordinated to a demand for flexibility postulates, i.e. so that in the periods when financial surpluses arise, the level of indebtedness (overdraft facilities, receivables purchase balances) decreases, and during periods of increased demand for funds provides a stable level of financing of current operations.

In 2018, the Group performed planned repayment of interest-bearing liabilities in a timely manner.

Financial instruments

Financial instruments have the largest share in the structure of the financial position statement, which includes trade and financial liabilities.

On the asset side, the main financial instruments highlighted are receivables mainly due to product deliveries, loans and cash.

As at 31 December 2018, the Group does not use financial instruments to hedge the value of assets and liabilities and, as a result, does not apply formal hedge accounting. A detailed description of accounting principles and applied valuation methods for particular categories of financial assets and liabilities was included in the previously described accounting principles.

Note No. 44
Material proceedings pending before a court or an authority competent for arbitration or a public administration authority

In 2018, proceedings regarding liabilities and receivables of Makarony Polskie SA or subsidiaries whose total value would account for at least 10% of Makarony Polskie SA's equity were not brought before any court, arbitration tribunal or public administration authority.

Note No. 45
Employment in the Makarony Polskie Group

Employment as at:	31.12.2018	31.12.2017
Production	137	121
Administration Department	20	23
Sales	29	37
In total	186	181

Note No. 46
Remuneration of the statutory auditor

The Supervisory Board of Makarony Polskie SA chose BDO Spółka z ograniczoną odpowiedzialnością sp.k. (earlier: BDO Spółka z ograniczoną odpowiedzialnością) with its registered office in Warsaw as statutory auditor to review financial statements of Makarony Polskie Group companies for the first half of the financial year and to audit financial statements of Makarony Polskie Group companies for the financial year 2018-2019.

Firma BDO Spółka z ograniczoną odpowiedzialnością sp.k. is entered on the list of auditing companies kept by the National Council of Statutory Auditors under number 3355 and entered into the Register of Entrepreneurs of the National Court Register maintained by the District Court for the Capital City of Warsaw, XIII Commercial Department of the National Court Register under number 0000729684.

The companies of the Makarony Polskie Group have not previously used the services of BDO Spółka z ograniczoną odpowiedzialnością sp.k.

Makarony Polskie SA on 27 July 2018 concluded with the above the auditor the agreement regarding the review of the condensed financial statements for the first half of the financial year and audits of the Company and the Group's financial statements for the financial year 2018-2019.

The total remuneration payable to BDO Spółka z ograniczoną odpowiedzialnością sp.k. due to the audit of financial statements for the financial year 2018 in the Makarony Polskie SA Group, amounts to PLN 105.0 k (PLN 29.9 thousand for the review of financial statements of Makarony Polskie SA and subsidiaries and the consolidated semi-annual report, PLN 75.1 k for the audit of the financial statements of Makarony Polskie SA and of subsidiaries and the Makarony Polskie Group for 2018).

In the scope of review and audit of the financial statements for the financial year 2017, Makarony Polskie SA used the services of ReVision - Rzeszów Józef Król Sp. z o.o. with its registered office in Rzeszów. Remuneration paid to ReVision - Rzeszów Józef Król Sp. z o.o. by Makarony Polskie SA amounted to a total of PLN 52.5 k, including PLN 18 k for the review of the separate and consolidated half-year statements and PLN 34.5 k for auditing financial statements of Makarony Polskie SA and Makarony Polskie Group for 2017.

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Grażyna Kozielec	Zenon Daniłowski
Chief Accountant	President of the Management Board

Rzeszów, 20 March 2018

The source of data in these statements, unless otherwise indicated, is the Makarony Polskie Group