Financial statements of the Makarony Polskie Group in the financial year 2019



Rzeszów, 8 April 2020

Table of Contents

General information **4**

Organizational structure of the Makarony Polskie Group 4

Changes in the organization of the Makarony Polskie Group in 2019 5

The employment balance as at 31 December 2019 in the Makarony Polskie Group was as follows: 7

Composition of the Parent Company's Management Board 8

Composition of the Supervisory Board 8

General Meeting of Makarony Polskie SA 9

Management Boards of the subsidiaries 14

Shares in subsidiaries 15

Publication and approval of the financial statements 15

Basis for preparation of the financial statements **16**

Declaration of compliance and the basis for preparing the statements 16

Basis for valuation 16

Functional and presentation currency 16

Accounting principles applied and the basis for preparing the statements 16

Entities subject to consolidation 23

Going Concern 23

Uncertainty of estimates 29

Selected financial data – Makarony Polskie Group **30**

Consolidated financial statement of comprehensive income **32**

Consolidated statement of financial position **34**

Consolidated statement of cash flows – indirect method **36**

Statement of changes in consolidated equity **38**

Additional notes **39**

Notes to the statement of comprehensive income 39

Note No. 1 Sales revenues 39

Note No. 2 Basic information about operating segments 40

Spis treści

Note No. 3 Revenues from sale of products, services, goods and materials - geographical structure 41
Note No. 4 Costs of employee benefits and depreciation costs 46
Note No. 5 Costs of sale 46
Note No. 6 Management costs 47
Note No. 7 Other revenues 47
Note No. 8 Other costs 48
Note No. 9 Financial incomes 49
Note No. 10 Financial costs 49
Note No. 11 Income tax 50
Note No. 12 Deferred income tax 51
Note No. 13 Data regarding the financial result and shares that were used to calculate basic and diluted earnings per share 52
Note No. 14 Explanations to the Consolidated statement of cash flows 53
Explanatory notes to the statement of financial position 54
Note No. 15 Tangible fixed assets 54
Note No. 16 Investment properties 59
Note No. 17 Goodwill 60
Note No. 18 Other intangible assets 62
Note No. 19 Long-term financial assets 64
Note No. 20 Inventories 64
Note No. 21 Receivables 65
Note No. 22 Receivables from corporate income tax 67
Note No. 23 Borrowings granted 68
Note No. 24 Cash and cash equivalents 68
Note No. 25 Other assets 68
Note No. 26 Share capital 69
Note No. 27 Supplementary and reserve capital 70
Note No. 28 Result from previous years 71
Note No. 29 Information on credits and sureties obtained as at 31 December 2019 75
Information on borrowings granted 82

Spis treści

Information on security bonds granted and obtained 83

Note No. 30 Guarantees granted and obtained 84

Note No. 31 Provision for pensions and similar 86

Note No. 32 Long-term and short-term financial liabilities..... 87

Note No. 33 Other liabilities 88

Note No. 34 Revenues of future periods 89

Note No. 35 Off-balance items 90

Note No. 36 Transactions with affiliates 91

Note No. 37 Other items related to assets, liabilities, equity, revenues, costs and profit net or cash flow statement which are not typical due to their nature, size or scope…… 93

Note No. 38 Material Agreements 94

Note No. 39 Remuneration of members of the Management Board and Supervisory Board 97

Note No. 40 Significant event after the balance sheet date in the period from 1 January 2019 to the date of submission of these financial statements..... 98

Note No. 41 Material accounting principles applied in the preparation of the financial statements 99

Note No. 42 Goals and principles of managing the financial risk 124

Note No. 43 Capital management 132

Note No. 44 Financial instruments 133

Note No. 45 Material proceedings pending before a court or an authority competent for arbitration or a public administration authority 133

Note No. 46 Employment in the Makarony Polskie Group 134

Note No. 47 Remuneration of the statutory auditor 134

General information

Organizational structure of the Makarony Polskie Group

Organization of the Group

The Makarony Polskie Group ("Group") consists of 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 extruded 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 made from spelt, buckwheat and rye flour. The range of products is enriched with large pasta forms for stuffing and vegetable pasta made from legumes such as chickpeas, red lentils and green peas. The Company has great opportunities to extend the range of pasta made from flours less frequent such as from legumes and the portfolio will be developed in this direction.

The basic pasta brands offered are Makarony Polskie, Sorenti and Abak (bibrand from Makarony Polskie).

Stoczek Natura Sp. z o.o. Stoczek Natura Sp. z o.o. is a producer of meat and vegetable preserves (ready-made dishes, pies, lard preserves), vegetable preserves (salads, marinades, bakery pastries), processed fruit (jams, syrups, damson cheese, confectionery fillings) offered under Stoczek, Tenczynek, Męska Rzecz, DeliSusz and a new brand SoFood which represents the developmental category

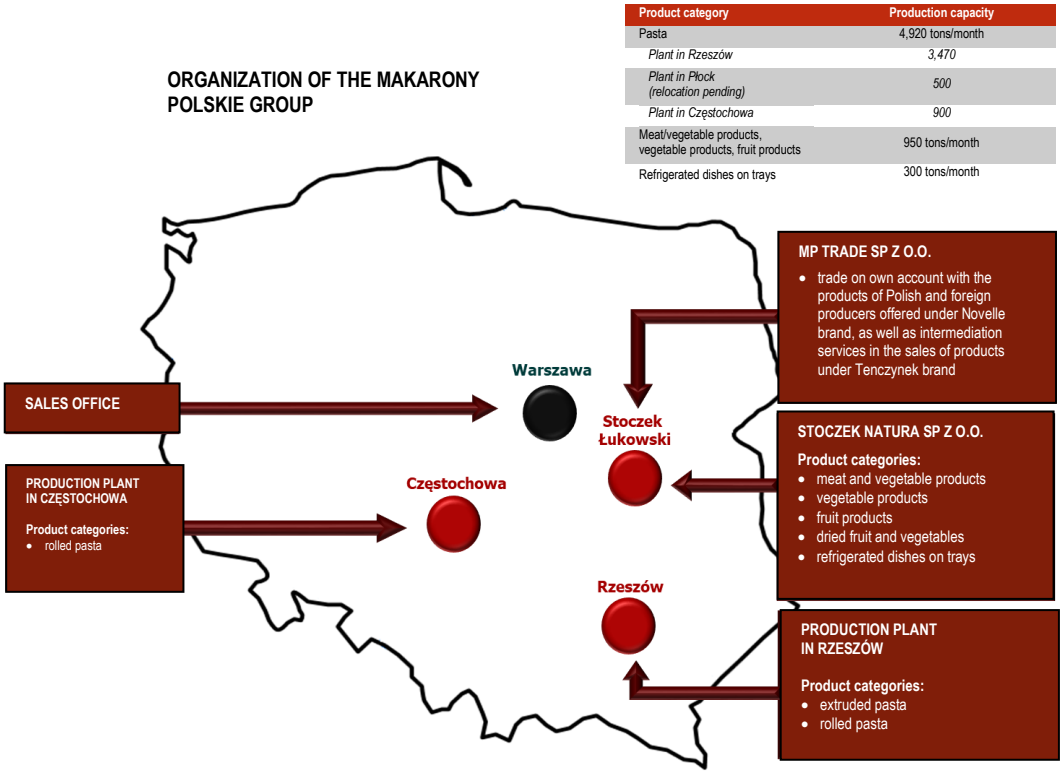
of ready-made dishes on trays. The products which are easy to prepare and can be placed on the so called shelf stable.

MP Trade Sp. z o.o. develops trade on own account with external goods of Polish and foreign producers. The Company's activity focuses on the sales of products bought from external suppliers under its own Novelle brand and granting the licence for Novelle brand to Makarony Polskie SA within the scope of production of vegetable pasta and other goods produced within the Makarony Polskie Group. The business model adopted by the Company creates its value by the increase in the value of the brand and the production is contracted outside.

Changes in the organization of the Makarony Polskie Group in 2019

In 2019, 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.



In 2019 the reorganization of the activities of the MP Trade Sp. z o.o. subsidiary was continued. The Company was carrying out consistent activities aimed at building the value of the Novelle brand by expanding the product portfolio (new products will be successively introduced to the Novelle brand portfolio), intensification of the marketing activities (including the support in the area of the Makarony Polskie SA parent company), as well as the brand positioning.

The Company plans further development of the Novelle brand in the following product categories: vegetable and high-protein pasta, as well as ready-made vegetarian dishes and natural snacks. Expanding the Novelle brand with new plant products desirable on the market aims at increasing the brand value and sales revenues. Following the modern food trends the Company adopted the idea of building a modern, vegetarian brand developed in line with global trends and dedicated to a certain target group.

The Novelle brand will be developed in the direction of increasing the brand visibility by creating a distinctive brand, with a coherent idea and wide product potential.

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 is growing all over the world.

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 2019 in the Makarony Polskie Group was as follows:

Makarony Polskie SA – 160 employees,

Stoczek Natura Sp. z o.o. – 50 employees,

MP Trade Sp. z o.o. – 0 employees.

Composition of the Parent Company's Management Board

In the period from 1 January 2019 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	2019		2018	
	number of shares	nominal value	number of shares	nominal value
Zenon Daniłowski*	140,000	420,000	140,000	420,000

* The President of the Management Board Zenon Daniłowski is associated with the following companies: Praska Giełda Spożywcza SA (formerly: 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 report is 2,311,594 shares worth PLN 6,934,782.

In accordance with the information held by the Company, during 2019 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 Supervisory Board

From 1 January 2019 to the date of publication of this statements the Supervisory Board of the Company is composed of

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

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	2019		2018	
	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 2019 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.

General Meeting of Makarony Polskie SA

The share capital of Makarony Polskie SA as at 31 December 2019 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.

Shares held by major shareholders (over 5% of the capital)

Shareholders holding directly or indirectly through subsidiaries, at least 5% of votes in the total number of votes at the General Meeting 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 Meeting	
	number	share%	number	share%
Grupa Praska Giełda Spożywcza SA, including:	2,311,594	24.99%	2,311,594	24.99%
Praska Giełda Spożywcza SA (formerly: Agro-Technika SA)	*2,050,000*	*22.16%*	*2,050,000*	*22.16%*
Zenon Daniłowski	*140,000*	*1.51%*	*140,000*	*1.51%*
Polskie Smaki Sp. z o.o.	*121,594*	*1.31%*	*121,594*	*1.31%*
Raya Holding for Technology & Communications S.A.E. 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%*
Agroma Ltd	950,000	10.27%	950,000	10.27%
Other shareholders	3,012,031	32,56%	3,012,031	32.56%
TOTAL	**9,250,071**	**100.00%**	**9,250,071**	**100.00%**

Changes in shareholding in 2019

In 2019 the Company received the following notification regarding the change in the number of shares held by major shareholders (holding the block of shares over 5%):

- on 13 June 2019 Agroma LTD with its registered office in Strovolos, Cyprus informed about the increase in the number of shares of Makarony Polskie SA. As a result of off-session block transactions of 245,500 shares of Makarony Polskie SA in total concluded on 11 June 2019, the share of Agroma LTD in the total number of votes in the General Meeting of the Company exceeded 5%, to the level of 5.9081% of the total number of votes in the General Meeting of the Company.
  Prior to the conclusion of the acquisition transaction, Agroma LTD acquired 303,000 shares of the Company representing approximately 3.2757% of the share capital of the Company and entitling it to 303,000 votes, that is 3.2757% of the total number of votes in the General Meeting of the Company. After the conclusion of the acquisition transaction, Agroma LTD acquires 546,600 shares of the Company representing 5.9081% of the share capital of the Company and entitling it to 546,500 votes, that is 5.9081% of the total number of votes in the General Meeting of the Company.

- on 21 June 2019 with its registered office in Strovolos, Cyprus informed about the increase in the number of shares of Makarony Polskie SA.
  As a result of off-session block transactions of 329,500 shares of Makarony Polskie SA in total concluded on 19 June 2019, the share of Agroma LTD in the total number of votes in the General Meeting of the Company exceeded 10%, to the level of 10.27% of the total number of votes in the General Meeting of the Company.
  Prior to the conclusion of the acquisition transaction, Agroma LTD acquired 620,500 shares of the Company representing approximately 6.71% of the share capital of the Company and entitling it to 620,500 votes, that is 6.71% of the total number of votes in the General Meeting of the Company.
  After the conclusion of the acquisition transaction, Agroma LTD acquires 950,000 shares of the Company representing 10.27% of the share capital of the Company and

entitling it to 950,000 votes, that is 10.27% of the total number of votes in the General Meeting of the Company.

At the same time, Agroma LTS declared each time that:

- It does not have any subsidiaries which would hold the shares of the Company and that the agreement containing the provisions as regards the transfer of the entitlements to execute the right to vote in the general meeting of the Company,
- Agroma LTD does not have any financial instruments which on maturity would unconditionally entitle or oblige their holder to acquire the shares with the right to vote issued by the Company,
- It does not have any financial instruments which relate to the shares of the Company indirectly or directly and have economic consequences similar to the consequences of the financial instruments specified in the previous sentence.

- on 21 June 2019 Mr. Krzysztof Moska informed about a reduction in the number of shares of Makarony Polskie SA.

  As a result of of a disposal transaction concluded on 19 June 2019 Mr. Krzysztof Moska disposed of 329,500 shares of Makarony Polskie SA, within session block transaction of stake disposal on the regulated market of the Warsaw Stock Exchange, the previous share in the total number of votes in the General Meeting of the Company held by Mr. Krzysztof Moska was reduced such that his holding dropped below the 5% threshold of the total number of votes in the General Meeting of the Company.

  Before the Change in Holdings, Mr. Krzysztof Moska held 464,434 shares of the Company, representing 5.02% in the share capital of the Company and 5.02% of the total number of votes in the General Meeting of the Company, i.e. entitling him to 464,434 votes on the shares of the Company.

  After the Change in Holdings, Mr. Krzysztof Moska holds the total of 134,934 shares of the Company, representing 1.46% in the share capital of the Company and 1.46% of the total number of votes in the General Meeting of the Company, i.e. entitling him to 134,934 votes on the shares of the Company.

  At the same time Mr. Krzysztof Moska informed that he had no subsidiaries which would hold the shares of the Company and there were no persons referred to in Article 87.1.3.C of the Act on Public Offering, and that he had no financial instruments referred to in Article 69b.1 of the Act on Public Offering.

- on 22 August 2019 the Company received a notification sent by Wojciech Wiśniewski, on his behalf and on behalf of Agro-Jumal Sp. z o.o. with its registered office in Sieradz, regarding the increase in the number of shares of Makarony Polskie SA held by them.

Mr. Wojciech Wiśniewski, acting on his own behalf and on behalf of Agro-Jumal Sp. z o.o. informed that on 13 August 2019, as a result of a purchase transaction of 1,610 shares of Makarony Polskie SA on the stock market, a change occurred in the share in the total number of votes in the General Meeting of the Company held by him and Agro-Jumal Sp. z o.o. Before the Change in Holdings, Mr. Wojciech Wiśniewski together with Agro-Jumal Sp. z o.o. held 461,760 shares of the Company, representing 4.9% share in the share capital of the Company and entitling them to 4.9% votes in the total number of votes in the General Meeting of the Company, i.e. to exercise 461,760 votes, in which:

- Mr. Wojciech Wiśniewski held individually 313,160 shares of the Company representing 3.3% share in the share capital of the Company and entitling him to 313,160 votes in the total number of votes in the General Meeting of the Company, i.e. to exercise 313,160 votes.
- Agro-Jumal Sp. z o.o. held individually 148,600 shares of the Company representing 1.6% share in the share capital of the Company and entitling it to 148,600 votes in the total number of votes in the General Meeting of the Company, i.e. to exercise 148,600 votes.

After the Change in Holdings, Mr Wojciech Wiśniewski together with Agro-Jumal Sp. z o.o. hold 463,370 shares of the Company, representing 5% share in the share capital of the Company and entitling them to 463,370 votes in the total number of votes in the General Meeting of the Company, i.e. to exercise 463,370 votes, in which:

- Mr. Wojciech Wiśniewski holds individually 314,770 shares of the Company representing 3.4% share in the share capital of the Company and entitling him to 314,770 votes in the total number of votes in the General Meeting of the Company, i.e. to exercise 314,770 votes.
- Agro-Jumal Sp. z o.o. holds individually 148,600 shares of the Company representing 1.6% share in the share capital of the Company and entitling it to 148,600 votes in the total number of votes in the General Meeting of the Company, i.e. to exercise 148,600 votes.

Changes in shareholding after balance-sheet date

On 18 March 2020 the Company received a notification sent by Mr. Wojciech Wiśniewski, on his behalf and on behalf of Agro-Jumal Sp. z o.o. with its registered office in Sieradz, regarding the decrease in the number of shares of Makarony Polskie SA held by them. Mr. Wojciech Wiśniewski, acting on his own behalf and on behalf of Agro-Jumal Sp. z o.o. informed that on 13 March 2020 as a result of a sales transaction of shares of Makarony Polskie SA on the stock market, a change occurred in the share in the total number of votes in the General

Meeting of the Company held by him and Agro-Jumal Sp. z o.o by reducing it to below 5% (hereinafter referred to as the "Change in Holdings").

Before the Change in Holdings, Mr. Wojciech Wiśniewski together with Agro-Jumal Sp. z o.o. held 477,562 shares of the Company, representing 5.16% of share in the share capital of the Company and entitling them to 477,562 votes in the total number of votes in the General Meeting of the Company, i.e. to exercise 477,562 votes, of which:

- Mr. Wojciech Wiśniewski held individually 328,962 shares of the Company representing 3.56% of share in the share capital of the Company and entitling him to 328,962 votes in the total number of votes in the General Meeting of the Company, i.e. to exercise 328,962 votes;

- Agro-Jumal Sp. z o.o. held individually 148,600 shares of the Company representing 1.6% of share in the share capital of the Company and entitling it to 148,600 votes in the total number of votes in the General Meeting of the Company, i.e. to exercise 148,600.

After the Change in Holdings, Mr Wojciech Wiśniewski together with Agro-Jumal Sp. z o.o. hold 452,623 shares of the Company, representing 4.89% of share in the share capital of the Company and entitling them to 452,623 votes in the total number of votes in the General Meeting of the Company, i.e. to exercise 452,623 votes, of which:

- Mr. Wojciech Wiśniewski holds individually 304,023 shares of the Company representing 3.29% of share in the share capital of the Company and entitling him to 304,023 votes in the total number of votes in the General Meeting of the Company, i.e. to exercise 304,023 votes;
- Agro-Jumal Sp. z o.o. holds individually 148,600 shares of the Company representing 1.6% of share in the share capital of the Company and entitling it to 148,600 votes in the total number of votes in the General Meeting of the Company, i.e. to exercise 148,600 votes.

Additionally, Mr. Wojciech Wiśniewsk informed that he and Agro Jumal Sp. z o.o. :

- do not have any subsidiaries which would hold the shares of the Company,
- have not concluded the agreement referred to in Article 87.1.3.c of the Act on Public Offering, i.e. the agreement of which the subject matter is the transfer of the entitlements to execute the voting right,
- do not have any financial instruments which on maturity would unconditionally entitle or oblige their holder to acquire the shares to which voting rights are attached, already issued by the Company, referred to in Article 69b.1.1 of the Act on Public Offering,
- do not have any financial instruments which relate to the shares of the Company indirectly or directly and have economic consequences similar to the consequences of the financial instruments specified in the previous sentence, referred to in Article 69b.1.2 of the Act on Public Offering.

The Company has no other information that would indicate changes in the number of shares held by material shareholders (holding stakes over 5%) during 2019 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.

Management Boards of the subsidiaries

As at 31 December 2019 and as at the date of this report publication, the composition of the Management Boards of the subsidiary was as follows:

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

On 16 January 2020 Mr. Rafał Dziobko resigned from the position of the President of the Management Board in connection with other professional plans. The Meeting of Shareholders of the subsidiary decided to change the number of members of the Management Board of the current term of office, determine it to be one-person and entrust the position of the President of the Management Board to Mr. Adam Ławnik.

As at the date of this report publication, the composition of the Management Boards of Stoczek Natura Sp. z o.o. was as follows:

- Adam Ławnik – President of the Management Board.

As at the date of publication of this report, the functions of Proxies of Stoczek Natura Sp. z o.o. were fulfilled by:

- Alicja Hinz – from 5 October 2001
- Jerzy Krzyżowski – from 17 January 2020
- Dariusz Cylka – from 17 January 2020

The rights of proxy granted are binding jointly – the Proxy may represent the Company only in liaison with another Proxy or a Member of the Management Board.

As at 31 December 2018 and as at the date of this report publication, the composition of the Management Boards of the subsidiary was as follows:

- Zenon Daniłowski – President of the Management Board.

There were no Proxies appointed at MP Trade Sp. z o.o. as at 31 December 2019 and the date of this report publication. During the reporting year 2019, the function of a Proxy at MP Trade Sp. z o.o. was fulfilled by Mr. Dariusz Cylka (the rights of proxy granted were binding jointly – the Proxy might represent the Company only in liaison with another Proxy or a Member of the Management Board), however, the Proxy was recalled by the Management Board on 17 April 2019.

Shares in subsidiaries

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

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 8 April 2020.

The financial statements of the Makarony Polskie Group for 2018 were approved by the Resolution No. 6 of the Annual General Meeting of Makarony Polskie SA on 18 June 2019.

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., brands: Tenczynek, Delisusz, So Food and investment property.

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 '000.

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 on 31 December 2018 (published on 25 April 2019), except for amendments to standards and new interpretations applicable to annual periods commencing on 1 January 2019.

Duration of the Company operation is unlimited.
The financial year shall be the calendar year.

Basis for preparation of the financial statements

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 2019 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 2019.

Amendments to the applied accounting principles

The accounting principles (policies) used to prepare these consolidated financial statements for the financial year ended on 31 December 2019 are consistent with those applied to the preparation of the consolidated financial statements for the financial year ended on 31 December 2018, except for the amendments described below.

The same principles have been applied to the current and comparable periods.

Changes resulting from the IFRS changes

From the beginning of the financial year, the following new or changed standards and interpretations issued by the International Accountancy Standard Board (IASB) or the International Financial Reporting Interpretations Committee apply

- IFRS 16 Leasing

  The new standard was published on 13 January 2016 and applies to annual period starting on 1 January 2019 or later and its earlier application is permitted (but on condition of simultaneous application of IFRS 15). The standard replaces the current regulations as regards leasing (IAS 17, among other things) and radically changes the approach to leasing agreement of different nature, ordering the lessee to show in the balance sheets the assets and liabilities by virtue of concluded leasing agreements, regardless of their type.

  The Group implemented IFRS 16 using a modified retrospective method.

  The implementation of the standard had the following consequences for the financial statement:

  The impact of IFRS 16 implementation:

  - Statement of financial position:
    - the right to use the components, the value of fixed assets as at 1 January 2019: PLN 5,008 thousand
    - leasing liabilities – other financial liabilities as at 1 January 2019: PLN 5,008 thousand
    - Statement of comprehensive income as at 30 June 2019:
    - increase in depreciation: PLN 917 thousand,
    - increase in interest costs: PLN 175 thousand,
    - total leasing fees in 2019: PLN 849.5 thousand.

  When applying the modified retrospective approach, the Group used the following practical facilitations:

  - a single discount rate was applied to leasing portfolios with sufficiently similar characteristics,
  - leasing agreements, where the remaining leasing term is 12 months or less from the date of application, have been accounted for as short-term leasing (i.e not included in the balance sheet), despite the fact that the initial leasing term from the date of commencement may have been longer than 12 months,

- the initial direct costs have not been included in the valuation of the assets by virtue of rights to use as at the date of first application,
- the knowledge acquired with hindsight was used to measure the the componet of assets by virtue of the right to use. Therefore, it was measure on the basis of prevailing estimates as at the date of first application rather than retrospectively using the estimates or judgements (such as the leasing term) based on circumstances at or after the date of leasing commencement.

- IFRIC 23 Uncertainty about the methods of income tax recognition

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

- Change in IFRS 9: Prepayments with negative compensation

  Change in IFRS 9 was published on 12 October 2018 and applied to annual periods starting from 1 January 2019 or later. Its purpose it to indicate the valuation rules for financial assets which can be repaid earlier on the basis of contractual conditions and formally, could not meet the requirements of the "payment of capital and interest only" test, which would exclude their valuation at amortized cost or at fair value by other comprehensive revenues.

- Change in IAS 28: Long-term shares in affiliates and joint ventures

  Change in IAS 28 was published on 12 October 2017 and applies to annual periods starting from 1 January 2019 or later. Its purpose is to indicate the valuation rules for shares in affiliates and joint ventures in the situation when they are not valued using the equity method.

- Changes in various standards resulting from the annual review of International Financial Reporting Standards (Annual Improvements 2015-2017)

  On 12 December 2017 as a result of the IFRS review, minor changes were made to the following standards:
  - IFRS 3 Business combinations, to clarify that the entity remeasures its interest in the joint operation when it obtains control,
  - IFRS 11 Joint contractual arrangements, to clarify that the entity does not remeasure its interest in joint operation when it obtains joint control,

- IAS 12 Income tax, indicating that any tax consequences of dividend payouts should be accounted for in the same way,
- IAS 23 Borrowing costs, which requires to include the credits and borrowings which were originally used to finance the resulting assets in the general financing sources – from the moment when the assets are ready for use in accordance with the intended purpose (use or sale).

They apply to annual period starting from 1 January 2019 or later.

- Changes in IAS 19: Amendment, restriction or settlement of the program

  Changes in IAS 19 were published on 7 February 2018 and apply to annual periods starting from 1 January 2019 or later. The changes concern the method of remeasurement of defined benefit programs in case they are changes. The changes in the standard mean that in the case of remeasurement of net asset/liability by virtue of a given program, the updated assumptions should be applied in order to determine the current employment and interest costs for the periods after the program change. Until now, IAS 19 has not explained it precisely.

The application of the above-mentioned standards did not have material impact on the statement of financial position, statement of comprehensive income and statement of cash flows, except for IFRS 16.

Changes made by the Group itself

In 2019 Makarony Polskie SA adjusted the financial statements for the previous years concerning the mistake made in the previous period when not calculating depreciation charges for the acquired right of perpetual usufruct of land, the value of land executed before 31 December 2018, the amount of PLN 332 thousand (of which PLN 307 thousand relates to the period until 31 December 2017) – annual depreciation rate of 1.21%

The entity made a presentation adjustment to the comparable data as at 31 December 2018 and for the financial year ended on 31 December 2018.

The adjustments are presented in Note No. 28.

Standards not in force (New standards and interpretations)

In these financial statements, the Group has not decided to apply published standards and interpretations before their effective date.

The following standards and interpretations were issued by the International Accounting Standards Board or the International Financial Reporting Interpretations Committee and have not yet entered into force as at the balance sheet date:

- IFRS 14 Regulatory Deferral Accounts

  The new standard was published on 30 January 2014 and applies to annual periods starting from 1 January 2016 or later. The new standard is of a transitional nature in connection with the ongoing works of IASB on regulating the method of operation settlement under price regulation. The standard introduces the rules for recognizing the assets and liabilities arising in connection with the transactions with regulated prices if an entity makes a decision to move to IFRS.

  The entity shall apply a new standard not earlier than the date determined by the European Union as the effective date of this standard. Due to the transitional nature of the standard, the European Commission has decided not to initiate the formal procedure of standard approval and wait for the target standard.

  IFRS 17 Insurance agreements

  The new standard was published on 18 May 2017 and applies to annual periods starting from 1 January 2021 or later. Earlier application is permitted (provided that IFRS 15 and IFRS 9 are applied simultaneously). The standard replaces the existing regulations concerning the insurance agreements (IFRS 4).

  The Group shall apply the new standard from 2021.

- Changes in IFRS 10 and IAS 28: Sales or contribution of assets between the investor and its affiliate or joint venture.

  Changes in IFRS 10 and IAS 28 were published on 11 September 2014 and apply to annual periods starting from 1 January 2016 or later (the effective date has been now postponed without indicating the initial date). The changes clarify the accounting of transactions in which the parent company loses control of the subsidiary which is not a "business" according to the definition specified in IFRS 3 "Business Combinations", by selling all or part of its shares in that subsidiary to the affiliate or joint venture accounted for using the equity method.

  The entity shall apply a new standard not earlier than the date determined by the European Union as the effective date of this standard. Currently the European Commission has decided to postpone the formal procedure of changed standard approval.

- Change in IFRS 3 Business combinations

Change in IFRS 3 was published on 22 October 2018 and applies to the annual periods starting from 1 January 2020 or later.

The purpose of the change was to clarify the definition of a business and make it easier to distinguish acquisitions of "businesses" from the group of assets for the purpose of merger settlement.

The Group shall apply the changed standard from the date indicated by the EU as the effective date of this change in the EU law.

– Changes in IAS 1 and IAS 8: Definition of the word "material"

Changes in IAS 1 and IAS 8 were published on 31 October 2018 and apply to annual period starting from 1 January 2020 or later.

The purpose of the changes was to clarify the definition of "materiality" and make it easier to apply it in practice.

The Group shall apply the changed standard from 1 January 2020.

– Reform of reference interest rates (reference rates) – Changes in IFRS 9, IAS 39 and IFRS 7

Changes in IFRS 9, IAS 39 and IFRS 7 were published on 26 September 2019 and apply to annual periods starting from 1 January 2020 or later.

The changes modify the detailed requirements of hedge accounting in order to minimize (eliminate) the potential consequences of uncertainty related to the reform of reference (interbank) interest rates. Additionally, the entities shall be required to add additional disclosures regarding those hedging relationships directly affected by uncertainty related to the reform.

The Group shall apply the changed standard from the date indicated by the EU as the effective date of this change in the EU law.

The application of the above-mentioned standards shall have no significant influence on the statement of financial position, statement of comprehensive income and statement of cash flows.

IFRS in the form approved by the EU do not currently differ significantly from the regulations adopted by the International Accounting Standards Board (RMSR), with the exception of the following standards, interpretations and changes therein which as at the date of approving these financial statements for publication, have not been adopted for use by the EU countries:

- IFRS 14 Regulatory Deferral Accounts published on 30 January 2014 (suspended process of adoption for use by the EU countries),
- IFRS 17 Insurance agreements, published on 18 May 2017,
- changes in IFRS 10 and IAS 28: Sales or contribution of assets between the investor and its affiliate or joint venture published on 11 September 2014 (suspended process of adoption for use by the EU countries),
- change in IFRS 3 Business combinations published on 22 October 2018,
- reform of reference interest rates (reference rates) - changes in IFRS 9, IAS 39 and IFRS 7 published on 26 September 2019.

Entities subject to consolidation

as at 31 December 2019	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
% of held capital	100%	100%

Going Concern

The consolidated financial statements of the Makarony Polskie Group have been prepared on the assumption that the business of the company 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 financial statements of the Management Board of the Company 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-promoting 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. Design works have been carried out, which will make it possible to launch modern laboratories in 2020: physicochemical, microbiological, organoleptic and technological laboratories;
- systematic works are carried out on the implementation of new products diversifying the company's offer into production and sales. In 2019, new forms of pasta (spaghetti express, cavatappi, tagliatelle, pappardelle and conchiglie) and products made with the use of new raw materials such as quail egg mass and pumpkin seed flour were introduced to the Company' product portfolio;
- In the production plant in Rzeszów the extension of the production and storage building by a flour node building with equipment was completed, which included silo installations for flour and other loose raw materials, and a cold store for raw materials and liquid additives. The production line for rolled pasta in a wide range of forms (such as tagliatelle and papardelle) was launched – the line includes, among others, highly advanced technologically system of dosing ingredients and dry additives by weigh allowing for the production of pasta from several types of flour in different proportions, as well as a dosisng device for micronutrients allowing for enriching the pasta composition with helath-promoting ingredients. The investment which will allow for the production of long pasta forms with the addition of liquid raw materials, such as egg pulp was carried out. The project related to the adaptation of the electric, cooling and technological installation was completed by adjusting the parameters of the connections to the future increased production capacities of the production plant in Rzeszów. The installation of a modern line for production tests was commenced (the planned date of investment completion is 2020), which will allow for carrying out R&D works on a large scale and for further development of the Company's product offer, among others, by including health-promoting products.
- the production plant in Częstochowa expanded its machine park with modern equipment for fast testing of raw materials and products in terms of moisture and fat content, which will allow for an immediate control of the raw material and its admission to production, and consequently, for increasing the production flexibility. In the plant the cold store to store raw materials requiring low temperatures during storage was expanded. These investments will allow for increasing the flexibility and safety of production, as well as for

maintaining continuity of production during periods of full utilization of production capacity;

- in Stoczek Natura Sp. z o.o. research is performed to adapt to global food production trends: convenience products, health-promoting products, innovative forms of packaging of offered products.
- In the production plant in Stoczek Łukowski in 2019 investments connected with the installation of a new line for production of ready-made dishes on trays were made (currently the offer includes several lines belonging to this category: world cuisines, regional and vege/fit cuisines). The modernization of the premises in the area of the production hall is carried out in connection with the purchase of a new machine park aimed at, among others, increasing the automation and efficiency of conducted production processes. The project of implementing innovative solutions through the modernization of the line for the production of ready-made dishes in jars and cans is carried out.

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, in the period from March 2017 to April 2019, allowed the Company for 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. The Company completed the supported investment project in April 2019. The Company, by fulfilling all obligations resulting from the co-financing agreement fully settled the project (and it received the final refinancing of incurred expenses), which took place in July 2019;
- project entitled "Creation 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 creation of the 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 "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-made dishes 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. The Company completed the supported investment project in February 2020 and submitted an application for final project settlement to the institution granting the support;
- 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-made dishes 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. The Company completed the supported investment project in February 2020 and submitted an application for final project settlement to the institution granting the support;
- 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-made dishes 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 Company completed the supported investment project in August 2019. By fulfilling all obligations resulting from the co-financing agreement, the Company fully settled the project (and it received the final refinancing of incurred expenses), which took place in January 2020. Since Q.1, 2020 the Company's offer includes 9 indices from the category of ready-made dishes on trays. There are products ready to eat, they can be reheated in a microwave or in a traditional way. They were positively received by the customers. This new, dynamically developing category, that is ready-made dishes on trays, opens up new opportunities of sales development for the Company, especially on the export markets. The revenues planned by Stoczek Natura Sp. z o.o. in this segment in 2020 are over PLN 4.0 million.

Activity development in the private label segment

- enriching the offer addressed to new and existing customers with health-promoting products, high-protein, made of leguminous flour and premium products, including pasta with the addition of quail eggs;
- 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 preserves, adapted to the expectations of the customers of that channel,
- establishing cooperation relations with other producers of pastas and ready-made dishes 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, new definition of Stoczek Natura, Sorenti, Tenczynek and Novelle brands, as well as introducing a new brand, So Food, under which ready-made dishes on trays are offered – in 2020 the Group plant to prepare a plan of support for marketing activities in this area,
- 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 pasta, vegetable pasta and new product categories, such as ready-made dishes on trays (especially the dishes for vegetarians which are in high demand on the market).

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 financial 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.
- estimates related to IFRS-16

As at the date of these statements, there are no indications of impairment of goodwill and the following brands: Abak, Deli Susz and So Food. Whereas for the Tenczynek brand the tests carried out showed the necessity to make write-down of book value in the amount of PLN 2.6 million. The basis for making the above write-downs was a change in the assessment of attractiveness and development prospects of products offered under the brand, related to the changes in trends on the food market (resignation from vegetable preserves in jars or syrups).

The relevant tests, in accordance with the applicable rules, were made as at the end of 31 December 2019.

Assumptions about the future and adopted estimates are consistent with the assumptions and estimates adopted by the Group in the financial statements for 2018.

Selected financial data – Makarony Polskie Group

Selected financial data	31 December 2019	31 December 2018	31 December 2019 (in '000 EUR)	31 December 2018 (in '000 EUR)
Revenues from sale of products, services, goods and materials	165,588	154,017	38,493	36,096
Profit (loss) from continued operations	6,911	8,320	1,607	1,950
Gross profit (loss)	5,530	7,307	1,286	1,712
Net profit (loss) from continued operations	3,803	5,805	884	1,360
EBIT	6,911	8,320	1,607	1,950
EBITDA (EBIT + depreciation)	13,536	14,084	3,147	3,301
Net cash flows from operating activities	16,062	14,037	3,734	3,290
Net cash flows from investment activities	-27,945	-15,843	-6,496	-3,713
Net cash flows from financial activities	12,247	710	2,847	166
Total net cash flows	364	-1,096	85	-257
Assets in total	173,627	145,460	40,772	33,828
Liabilities and provisions for liabilities	93,639	66,962	21,989	15,573
Long-term liabilities	39,351	21,686	9,241	5,043
Short-term liabilities	54,288	45,276	12,748	10,530
Equity	79,988	78,498	18,783	18,255
Share capital	27,750	27,750	6,516	6,453
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) *	0.41	0.63	0.10	0.15
Book value per one share (in PLN/EUR)**	8.65	8.49	2.03	1.97

* 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 – Makarony Polskie Group

Selected financial data in EUR

Selected financial data for the period 01.01-2019-31 12.2019 and 01.01.2018-31.12.2018 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 2019, EUR 1 = PLN 4.2585; 31 December 2018 EUR 1 = PLN 4.30)

- 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 2019 = PLN 4.3018 and at the end of each month of 2018 = PLN 4.2669

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 interim 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 statement of comprehensive income

Total income consolidated statement

FOR THE PERIOD	Note	01.01.2019 31.12.2019	01.01.2018- 31.12.2018
Net revenues from sales	**1,2,3**	**165,588**	**154,017**
Revenues from sale of other products and services		158,714	147,959
Revenues from sale of goods and materials		6,874	6,058
Own cost	**2**	**128,077**	**119,560**
Production costs of products and services sold		122,179	114,170
Value of goods and materials sold		5,898	5,390
Gross profit (loss) on sales		**37,511**	**34,457**
Costs of sales	5	21,303	19,715
General administrative costs	6	7,104	6,920
Other revenues	7	1,371	1,562
Other costs	8	3,564	1,064
Profit (loss) from continued operations		**6,911**	**8,320**
Financial revenues	9	26	22
Financial costs	10	1,407	1,035
Gross profit		**5,530**	**7,307**
Income tax - current part	11	1,775	1,376
Income tax - deferred part	12	- 48	126
Net profit (loss) from continued operations		**3,803**	**5,805**
In this attributable to:		3,803	5,805
Shareholders of the parent Company		3,803	5,805
Non-controlling shares		0	0
Basic net result per share in PLN	13	0.41	0.63
Diluted net result per share in PLN		0.41	0.63
Other total net income/loss		0	0
Total net income		3,803	5,805
Total net income attributable to:		3,803	5,805
Shareholders of the parent Company		3,803	5,805
Non-controlling shares		0	0

Consolidated financial statement of comprehensive income

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

FOR THE PERIOD	01.01.2019-31.12.2019	01.01.2018-31.12.2018
Total net income	3,803	5,805
Profit/loss due to application of hedge accounting	0	0
Total net income	3,803	5,805

Consolidated statement of financial position

ASSETS	Note	01.01.2019-31.12.2019	01.01.2018-31.12.2018
FIXED ASSETS		**126,942**	**101,160**
Tangible fixed assets	15	108,814	84,471
Fixed assets – IFRS-16	15	4,091	0
Investment real estate	16	603	603
Goodwill	17	5,949	5,949
Other intangible assets	18	7,363	9,945
Long-term financial assets	19	0	0
Assets for deferred income tax		2	1
Other assets - long-term	25	120	191
CURRENT ASSETS		**46,685**	**44,300**
Inventories	20	20,515	18,157
Short-term receivables	21	25,074	25,427
Receivables from deferred income tax	21,22	17	0
Borrowings granted	23	0	0
Cash and cash equivalents	24	718	359
Other assets - short-term	25	361	357
FIXED ASSETS HELD FOR SALE		0	0
TOTAL ASSETS		**173,627**	**145,460**

EQUITY AND LIABILITIES	Note	01.01.2019-31.12.2019	01.01.2018-31.12.2018
EQUITY		**79,988**	**78,498**
Share capital	**26**	27,750	27,750
Supplementary capital	27	37,155	46,095
Reserve capital	27	12,000	0
Retained profits/losses (profit/loss from previous years)	28	- 720	-1,152
Net profit/loss		3,803	5,805

Consolidated statement of financial position

LONG-TERM LIABILITIES		**39,351**	**21,686**
Provision for deferred income tax	12	3,522	3,569
Long-term bank credits and borrowings	29	17,995	10,541
Provision for retirement and similar benefits (long-term)	31	357	285
Revenues of future periods - long-term	34	13,042	6,062
Long-term financial liabilities- leasing	32	1,160	1,229
Long-term financial liabilities - IFRS	32	3,275	0
SHORT-TERM LIABILITIES		**54,288**	**45,276**
Short-term bank credits and borrowings	29	16,500	14,170
Short-term financial liabilities - leasing	32	762	944
Short-term financial liabilities - IFRS-16	32	884	
Other short-term liabilities	33	33,673	27,991
Income tax liabilities	33	426	220
Revenues from future periods - short-term	34	975	909
Provision for retirement and similar benefits (short-term)	31	1,055	1,042
Other short-term provisions	31	13	0
TOTAL LIABILITIES		**93,639**	**66,962**
TOTAL EQUITY AND LIABILITIES		**173,627**	**145,460**

Consolidated statement of cash flows – indirect method

FOR THE PERIOD	01.01.2019-31.12.2019	01.01.2018 31.12.2018
Cash flows from operating activities		
Profit before tax	**5,530**	**7,307**
Adjustments by items:	**10,532**	**6,730**
Depreciation	6,625	5,764
Profits/losses on exchange differences	5	-1
Interest expense and income	1,171	731
Revenues from dividends	0	0
Profit/loss from investing activities	- 65	298
Change in provisions	98	182
Change in inventories	- 2,358	- 2,533
Change in liabilities	- 95	4,654
Change in liabilities and accruals	4,097	- 661
Paid/refunded corporate income tax	- 1,586	- 1,191
Other adjustments	2,640	- 513
Net cash flows from operating activities	**16,062**	**14,037**
Cash flows from investment activities	0	0
Proceeds from the sale of fixed assets and intangible assets	523	330
Proceeds from the sale of financial assets	0	0
Expenses for the purchase of fixed tangible assets and intangible assets	- 28,468	- 16,173
Expenses for the acquisition of subsidiaries and affiliates	0	0
Interest income	0	0
Proceeds from borrowings granted	0	0
Borrowings granted	0	0
Others	0	0
Net cash flows from investing activities	**- 27,945**	**- 15,843**
Cash flows from financial activities		
Proceeds from credits and borrowings	21,307	7,919
Repayment of credits and borrowings	- 11,522	- 3,701

Consolidated statement of cash flows – indirect method

Payment of liabilities under financial lease agreements	- 2,006	- 854
Interest paid	- 1,171	- 731
Dividend paid to shareholders	- 2,313	- 2,313
Expenses on acquisition of financial assets	0	0
Other financial revenues - subsidies	7,952	390
Net cash flows from financial activities	**12,247**	**710**
Increase/decrease in cash and cash equivalents	**364**	**- 1,096**
Cash, cash equivalents and overdrafts at the beginning of the period	359	1,454
Foreign exchange gains/losses on the valuation of cash, cash equivalents and overdrafts	-5	1
Cash, cash equivalents and overdrafts at the end of the period	**718**	**359**

Statement of changes in consolidated equity

For the period from 1 January 2019 to 31 December 2019

	Share capital	Supplementary capital	Reserve capital	Current year result	Profit/loss from previous years	Total
Balance as at 1 January 2019	27,750	46,095	0	0	4,653	78,498
Distribution of profit/loss coverage	0	3,060	0	0	- 3,060	0
Distribution of profit –dividend payout	0	0	0	0	-2,313	- 2,313
Creation of reserve capital – own shares	0	- 12,000	12,000	0	0	0
Other total income	0	0	0	0	0	0
Net result in 2019	0	0	0	3,803	0	3,803
Balance as at 31 December 2019	27,750	37,155	12,000	3,803	- 720	79,988

For the period from 1 January 2018 to 31 December 2018

	Share capital	Supplementary capital	Reserve capital	Current year result	Profit/loss from previous years	Total
Balance as at 1 January 2018	27,750	42,184	0	0	5,064	74,998
Distribution of profit/loss coverage	0	3,911	0	0	- 3,911	0
Distribution of profit –dividend payout	0	0	0	0	-2,313	- 2,313
Reversal of unrealized margin from previous years	0	0	0	0	8	8
Other total income	0	0	0	0	0	0
Net result in 2018	0	0	0	5,805	0	5,805
Balance as at 31 December 2018	27,750	46,095	0	5,805	- 1,152	78,498

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 31.12.2019	For the period from 01.01 to 31.12.2018
Revenues from the sale of products	151,161	140,657
Proceeds from the sale of services, including:	7,553	7,302
- from Lease and storage	5,393	4,947
- service production	2,150	2,355
- other services	10	0
Proceeds from the sale of materials	3,804	3,667
Revenues from the sale of goods	3,070	2,391
Total	**165,588**	**154,017**

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

(in PLN '000)	For the period from 01.01 to 31.12.2019	For the period from 01.01 to 31.12.2018
Pasta	118,194	101,635
Meat and vegetable preserves	26,775	32,410
Vegetable preserves and stuffing	1,969	2,832
Fruit preserves	8,632	7,767
Other	10,018	9,373
Total	**165,588**	**154,017**

The sales revenues of the Makarony Polskie Group in 2019 amounted to PLN 165.6 million and were by approx. PLN 11.6 million higher than in the corresponding period of 2018.

The value of sales in the category of pasta increased by PLN 16.6 million to PLN 118.2 million in 2019. The main changes resulted from good reception by customers of product novelties

in the largest retail chains (e.g. pasta made in 100% of vegetable pasta) and high dynamics of export sales growth.

Another segment in which positive dynamics of change was recorded is the segment of fruit preserves. In the analyzed period it increased by PLN 0.9 million to the amount of nearly PLN 8.6 million, which resulted from the sales development of jams under chain brands and the Stoczek brand.

The sale of the category of meat and vegetable preserves dropped in the analyzed period by approx. PLN 5.7 million to approx. PLN 26.8 million. The decrease of about 17.4% (2019 compared to 2018) resulted from lack of agreement on the delivery of ready-made dishes for the National Center for Agricultural Support (in the first half of 2018 a one-off contract was performed). In this category the Group recorded a sales growth under own brand and retail chains (+PLN 1.7 million YoY), but this did not fully compensate for the lack of contract with National Center for Agricultural Support (KOWR).

The segment of vegetable preserves and stuffing recorded sales decrease in the analyzed period by PLN 0.9 million to nearly PLN 2.0 million. The decrease resulted mainly from the negative dynamics of product sales under the Tenczynek brand (marinades).

Note No. 2

Basic information about operating segments

For the period from 01.01 to 31.12.2019	Pasta	Meat and vegetable preserves	Vegetable preserves	Fruit preserves	Other	Total segments
Total segment revenues	**118,194**	**26,775**	**1,969**	**8,632**	**10,018**	**165,588**
Sales to external customers	118,194	26,775	1,969	8,632	10,018	165,588
Sales between segments	0	0	0	0	0	0
Segment costs	**91,167**	**23,778**	**1,533**	**7,109**	**4,490**	**128,077**
Profits or losses of segments	**27,027**	**2,997**	**436**	**1,523**	**5,528**	**37,511**
Costs of sales	0	0	0	0	0	- 21,303
Management costs	0	0	0	0	0	- 7,104
Other revenues	0	0	0	0	0	1,371
Other costs	0	0	0	0	0	- 3,564
Financial incomes	0	0	0	0	0	26
Financial costs	0	0	0	0	0	- 1,407
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	5,530

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	**78,612**	**27,764**	**2,096**	**6,594**	**4,494**	**119,560**
Profits or losses of segments	**23,023**	**4,646**	**736**	**1,173**	**4,879**	**34,457**
Costs of sales	0	0	0	0	0	- 19,715
Management costs	0	0	0	0	0	- 6,920
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	7,307

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

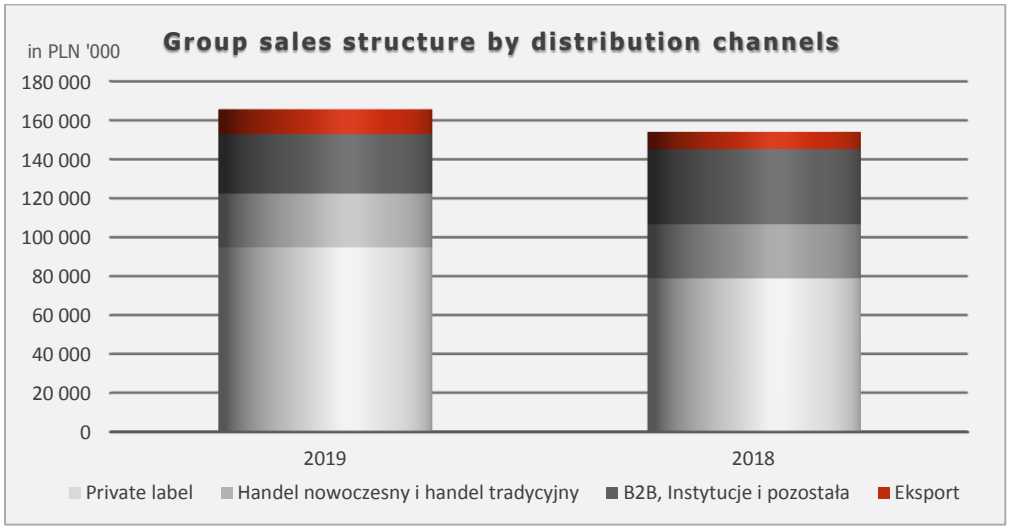
	For the period from 01.01 to 31.12.2019	For the period from 01.01 to 31.12.2018
Country	151,403	145,134

Exports, including:	14,185	8,883
- European Union countries	3,097	1,716
- other countries	11,088	7,167
Total	**165,588**	**154,017**

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). The Group achieved the following sales revenues in 2019:

in PLN '000	2019	2018	YoY
Incomes on sale	165,588	154,017	7.5%



Private label

The largest share in the Company revenues (57.2%) was contributed by the private label (PL) channel offering products under own brands of domestic and foreign shop chains (in consideration of the sales to Lidl operating within one group in Europe).

PLN '000	2019	2018	YoY
Incomes on sale	94,842	78,903	20.2%

The sales markets of Makarony Polskie SA may be divided into domestic market (including private label, traditional trade, modern trade, and B2B and institutions) and exports market (including sales through domestic intermediaries).

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

In 2019 sales in that channel grew by 20.2% compared to 2018. Higher sales revenues resulted from the introduction of a new assortment to the fixed list of products, with simultaneous maintenance of the previously offered products.

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

In 2019 two customers exceeded the threshold of 10% share in the separate sales revenues (total for brand and private label products). These are Jeronimo Dystrybucja Polska with approximately 26.2% share and Grupa Lidl with roughly 11.3% share. The companies of the Group are in no way related to the operators of those shop chains, whereas cooperation is carried out on partner basis and is favourable to the Makarony Polskie Group.

Modern trade and traditional trade

Another significant revenue source for the Company accounting for 18.4% sales on the domestic market is the sales of the Company brands (Makarony Polskie, Sorenti, Stoczek, Tenczynek, Męska Rzecz, and Novelle) in the modern trade (MT) and traditional trade (TT) channels:

MT and TT (PLN '000)	2019	2018	YoY
Incomes on sale	27,550	27,736	-0.7%

In 2019 there was a decrease in revenues in this segment by 0.7%, which was mainly influenced by:

- price pressure on the market,
- increase in raw material prices and production costs
- no possibility to renegotiate the concluded contracts,
- growing PL segment also in modern trade networks.

In 2020 the Group plans to develop cooperation and attract new foreign, domestic and local shop chains which have not yet been serviced. Additionally, in cooperation with the companies offering external sales forces, the Group plans to improve the service of the current customers and attract new recipients.

B2B and Institutions

B2B and Institutions accounted for approx. 18.4% in 2019, in total revenues of the Group:

B2B and Institutions (in PLN '000)	2019	2018	r/r
Incomes on sale	30,497	38,494	-20.8%

Sales in the B2B distribution channel and Institutions in 2019 amounted to nearly PLN 30.5 million and were higher by nearly PLN 8.0 million (i.e. -20.8%) compared to 2018.

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 decrease in sales resulted from the lack of institutional contract for delivery of ready-made dishes (in the first half of 2018 a one-off contract was performed).

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 2019 accounted for 7.7%:

Export (in PLN '000)	2019	2018	YoY
Incomes on sale	14,185	8,883	59.7%

The export sale of the Group in 2019 amounted to approx. PLN 14.2 million performed with its own sales team and intermediaries). It was a result by over 59 % higher than the one reached in 2018. 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. In 2019, the Makarony Polskie Group operated mainly on European markets (Ukraine, Belarus, Slovakia, Germany, Serbia) and to a lesser extent on African (Egypt, RSA), Asian (Hong Kong, Iraq) and the USA markets.

Additional notes

In 2019, the Makarony Polskie Group operated mainly on European markets (Ukraine, Belarus, Slovakia, Germany, Serbia) and to a lesser extent on African (Egypt, RSA), Asian (Hong Kong, Iraq) and the USA markets.

In subsequent years, the Group plans to focus its activities on the European, mainly Ukrainian, Belarussian, Russian markets.

In subsequent years, the Group plans to focus its activities on the European, mainly Ukrainian, Belarussian, Russian 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 31.12.2019	For the period from 01.01 to 31.12.2018
Payroll costs	12,303	11,232
Social security costs	2,160	1,872
Costs of other employee benefits, including:	775	513
- costs of benefits due to termination of employment	16	10
- costs of pension benefits	20	46
- costs of equivalents for unused leave	160	95
- other benefits	579	362
Total	**15,238**	**13,617**

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 31.12.2019	For the period from 01.01 to 31.12.2018
Depreciation	6,625	5,764

Note No. 5

Costs of sale

	For the period from 01.01 to 31.12.2019	For the period from 01.01 to 31.12.2018
Depreciation	1,389	558
Consumption of materials and energy	509	487
Costs of external services	12,284	12,749

Taxes and fees	329	267
Wages and salaries	3,712	3,255
Employee benefits	773	634
Other costs	2,307	1,765
Total	**21,303**	**19,715**

Note No. 6

Management costs

	For the period from 01.01 to 31.12.2019	For the period from 01.01 to 31.12.2018
Depreciation	456	339
Consumption of materials and energy	131	114
Costs of external services	1,793	2,132
Taxes and fees	296	206
Wages and salaries	3,258	3,091
Employee benefits	550	438
Other costs	620	600
Total	**7,104**	**6,920**

Note No. 7

Other revenues

	For the period from 01.01 to 31.12.2019	For the period from 01.01 to 31.12.2018
State subsidies	1,056	546
Profit on the sale of tangible fixed assets	66	0
Release of other provisions and reversal of impairment losses	0	0
Compensation and complaints	50	86
Sales of scrap and waste	83	87
Return of court and bailiff fees	3	0
Inventory surplus	58	146
Return of overpayment - insurance premiums	22	50
Accrued income from Return of eligible costs - subsidy	0	99
Liabilities written down	0	6
Sales discounts	29	22
Investment property modernization	0	520
Other	4	0

Total	**1,371**	**1,562**

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 tangible fixed assets, 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 fixed assets and inventory surpluses on current assets.

Note No. 8
Other costs

	For the period from 01.01 to 31.12.2019	For the period from 01.01 to 31.12.2018
Donations	25	25
Loss on the sale of fixed assets	0	298
Penalties and fines	35	83
Shortages in current assets	18	48
Write-down of inventories	89	44
Write-down of the Tenczynek brand	2,641	0
Costs of court and bailiff proceedings	0	3
Liquidation of damaged and overdue stocks	475	328
Advertising sponsorship	86	65
Write-down for receivables, other write-downs	70	95
Costs of repairs covered by insurance	22	1
Reversal of revenue earned in 2018 from co-financing from the EU subsidy	99	67
Write-downs - remitted unrecoverable	0	5
Other	4	2
Total	**3,564**	**1,064**

Other operating costs include costs and losses not directly related to the Group's operating activities. This category includes impairment losses on the sale of tangible fixed assets, 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 tangible fixed assets and non-culpable shortages on current assets.

Note No. 9
Financial incomes

	For the period from 01.01 to 31.12.2019	For the period from 01.01 to 31.12.2018
Interest revenues, including:	17	22
- interest on bank deposits	0	0
- interest on borrowings	0	0
- interest on receivables	17	22
Foreign exchange profits	0	0
Other financial revenues, including:	9	0
- update of the value of short-term investments	0	0
- other financial revenues	9	0
- profit from disposal of financial assets	0	0
Total	**26**	**22**

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.

Note No. 10
Financial costs

	For the period from 01.01 to 31.12.2019	For the period from 01.01 to 31.12.2018
Interest expenses, including:	1,179	711
- bank credits	829	512
- factoring and leasing costs	167	180
- interest on leasing- IFRS -16	175	
- interest on liabilities	4	1
- budget interest	4	18
Other financial costs, including:	228	324
- loss due to negative exchange rate differences	28	69

- guarantees, sureties	40	67
- banking and factoring fees and commissions	160	188
Total	**1,407**	**1,035**

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 31.12.2019	For the period from 01.01 to 31.12.2018
Current income tax	1,775	1,376
Deferred income tax	- 48	126
Tax burden/recognition disclosed in the statement of comprehensive income, including:	1,727	1,502
- assigned to continued operations	1,727	1,502

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 31.12.2019	For the period from 01.01 to 31.12.2018
Gross financial result before tax, from continued operations	5,530	7,307
Profit/loss before tax on discontinued operations	0	0
Gross financial result before tax	5,530	7,307
Tax rate (in %)	19	19
- tax costs which do not constitute balance sheet costs (-)	- 2,394	- 1,202
balance sheet costs not included in tax costs (+)	7,399	2,927
- revenues not constituting tax revenues (-)	- 1,045	- 1,157
- tax revenue not constituting balance sheet revenue (+)	10	57
- received subsidies	0	0
Tax base/tax loss of the Group	9,500	7,932
Deductions from income:		

- tax shield 2014-Stoczek Natura Sp. z o.o.	0	-24
- tax shield 2015-Stoczek Natura Sp. z o. o	0	- 362
- tax shield 2016-Stoczek Natura Sp. z o. o	- 317	- 442
Income for taxation of the Group	9,183	7,104
Tax base	9,344	7,241
Income tax shown in the statement of comprehensive income - current part	1,775	1,376

The Group is not a tax capital 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

	Statement on the financial situation as at 31.12.2019	Statement on the financial situation as at 31.12.2018	Statement of total income for the period from 01.01 to 31.12.2019	Statement of total income for the period from 01.01 to 31.12.2018
Provision for deferred income tax				
- difference between the carrying amount and tax net value of fixed assets	3,618	3,614	4	- 95
- foreign exchange differences	11	4	7	- 6
- difference between the commitment under leasing and the net value of fixed assets	125	183	- 58	27
- accrued interest	0	0	0	-13
- valuation of investment property	160	160	0	98
Gross provision for deferred income tax	3,914	3,961	- 47	11
Assets for deferred income tax				
- remuneration paid after the balance sheet date	12	12	0	3
- social security contributions	67	53	14	1
- pension benefits and similar	268	249	19	32
- interest on liabilities	2	0	2	- 8
- foreign exchange differences	3	4	- 1	- 1
- deductible tax loss	0	60	- 60	-157
- overdue liabilities as at the balance sheet date	0	0	0	0
- inventory write-downs	23	8	15	8
- unrealized margin of the GROUP	6	7	-1	7

- lease agreement – leasing IFRS-16	13	0	13	0
Deferred income tax assets recognized in the statement of financial position	394	393	1	- 115
Deferred tax liability/recognition	- 3,520	- 3,568	- 48	126

Assets for deferred income tax

	As at 31.12.2019	As at 31.12.2018
- deductible tax loss	858	697
Assets under deferred income tax not recognized in the balance sheet – tax loss of MP Trade	77	63

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% and 9%. The provisions which assume differentiation of tax rates for future periods applicable to MP Trade from the Group.

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 31.12.2019	For the period from 01.01 to 31.12.2018
Net profit/loss per share	0.41	0.63
Book value per one share in PLN	8.65	8.49

	For the period from 01.01 to 31.12.2019	For the period from 01.01 to 31.12.2018
Net profit/loss from continued operations attributable to shareholders of the parent company	3,803	5,805
Profit/loss on discontinued operations attributable to shareholders of the parent company	0	0

Net profit/loss attributable to shareholders of the parent company	3,803	5,805
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 31.12.2019	For the period from 01.01 to 31.12.2018
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 ordinary 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 2019, 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.

Note No. 14

Explanations to the Consolidated statement of cash flows

FOR THE PERIOD	01.01.2018-31.12.2019	01.01.2018-31.12.2018
Change in liabilities and accruals with the exception of credits and borrowings - CF	**4,097**	**(661)**
- change in other long-term assets resulting from the balance sheet	71	308
- change in other short-term assets resulting from the balance sheet	(4)	121
- change in long-term deferred income resulting from the balance sheet	6,980	(476)
- change in short-term deferred income resulting from the balance sheet	66	356
- change in other short-term liabilities resulting from the balance sheet	5,682	1,191
- correction of accrued interest on the credit - balance sheet recognition	0	2

- correction (postponement) of unpaid liabilities regarding investment expenditures	(2,518)	(1,773)
- inflow of subsidies to fixed assets – correction of balance sheet change of deferred income	(7,952)	(390)
correction (postponement) paid liabilities regarding the investment expenditures of 2018	1,772	0
Other adjustments - CF	**2,640**	**(513)**
- valuation/reclassification of investment land to fair value	0	(520)
- write down of the Tenczynek brand	2,641	0
- realized margin from previous years	0	7
- other	-1	0

Explanatory notes to the statement of financial position

Note No. 15

Tangible fixed assets

Gross tangible fixed assets:	31.12.2019	31.12.2018
Land, buildings and structures	58,998	51,478
Machines and equipment	94,676	71,642
Means of transportation	3,811	3,650
Fixed assets in progress	20,029	16,792
Other	2,912	2,666
Gross value at the end of the period	**180,426**	**146,228**

Amortizations and write-downs	31.12.2019	31.12.2018
Land, buildings and structures	20,968	18,779
Machines and equipment	42,182	38,581
Means of transportation	2,299	2,424
Fixed assets in progress	0	0
Other	2,072	1,973
Value of amortization and write-downs	**67,521**	**61,758**

Net tangible fixed assets:	31.12.2019	31.12.2018
Land, buildings and structures	38,030	32,699
Machines and equipment	52,494	33,061
Means of transportation	1,512	1,226

Fixed assets in progress	20,029	16,792
Other	840	693
Net value at the end of period	**112,905**	**84,471**

Changes in fixed assets

For the period from 1 January 2019 to 31 December 2019

	Land, buildings	Machines and equipment	Means of transportation	Fixed assets in progress	Other	Total
Gross value at the beginning of the period	51,478	71,642	3,651	16,792	2,666	146,229
Increases	7,887	23,179	940	29,669	274	61,949
- purchase	2,879	23,179	6	29,660	274	55,998
- other	5,008	0	934	9	0	5,951
Decreases	367	145	780	26,432	28	27,752
- sale	367	21	704	0	8	1,100
- other	0	124	76	26,432	20	26,652
Gross value at the end of the period	58,998	94,676	3,811	20,029	2,912	180,426
Amortization value at the beginning of the period	17,310	38,470	2,424	0	1,973	60,177
Increases	2,254	3,767	535	0	127	6,683
Decreases	0	135	660	0	28	823
Amortization value at the end of the period	19,564	42,102	2,299	0	2,072	66,037
Write-down at the beginning of the period	1,468	111	0	0	0	1,579
Write-down at the end of period	1,404	80	0	0	0	1,484
Value including amortization and impairment write-down at the end of the period	20,968	42,182	2,299	0	2,072	67,521
Net value at the end of period	38,030	52,494	1,512	20,029	840	112,905

For the period from 1 January 2018 to 31 December 2018

	Land, buildings	Machines and equipment	Means of transportation	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	3,651	16,792	2,666	146,228
Amortization value at the beginning of the period	16,057	34,679	2,223	0	1,979	54,938
Increases	1,253	4,034	428	0	111	5,826
Decreases	0	243	227	0	117	587
Amortization value at the end of the period	17,311	38,470	2,424	0	1,973	60,177
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	18,779	38,581	2,424	0	1,973	61,758
Net value at the end of period	32,699	33,061	1,226	16,792	693	84,471

Impairment write-downs are taken into account in other expenses in the statement of comprehensive income. In 2019, the Group did not make write-downs of tangible fixed assets. 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).

Fixed assets in progress, 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 in progress in 2019 amounted to PLN 232 thousand (interest and commission costs). The Group estimates the borrowing costs according to the actual interest rate for a given financial liability (credit).

The Group has in its use machines, equipment and means of transport under leasing agreements. The carrying amount of fixed assets used under finance lease agreements as at 31 December 2019 was PLN 6,668 thousand, as at 31 December 2018 amounted to PLN 3,135 thousand.

As at 31 December 2019 in the subsidiary Stoczek Natura sp. o.o. the value of registered pledges on machines and equipment was PLN 10,246 thousand, including:

- collateral for BGK's credit agreement – PLN 10,246 thousand

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 2.5 million as at 31 December 2019.

Mortgages established or in the course of establishing on the properties of companies from the Group

Property	As at 31.12.2019	Creditor's name	Title of liability	Company's liability
Property in Rzeszów land and mortgage register No. KW RZ1Z/00076860/5	PLN 33,000 thousand	Santander Bank Polska SA	contractual joint mortgage	Agreement on credit in current account in the amount of PLN 5,000 thousand concluded by Makarony Polskie SA
Property in Płock land and mortgage register No. KW PL1P/00094893/6, No. PL1P/00097530/5, land and mortgage register No. KW PL1P/00114158/9 and land and mortgage register No. KW PL1P/00097363/3 (on shares held)				Agreement on investment credit in the amount of PLN 13,849 thousand concluded by Makarony Polskie SA
				Framework agreement on the method of concluding and settling transactions
Property in Rzeszów land and mortgage register No. KW RZ1Z/00076860/5	PLN 2,500 thousand	Santander Bank Polska SA	contractual joint mortgage	Agreement on EU investment credit in the amount of PLN 8,000 thousand concluded by Makarony Polskie SA
Property in Płock land and mortgage register No. KW PL1P/00094893/6, No. PL1P/00097530/5, land and mortgage register No. KW PL1P/00114158/9 and land and mortgage register No. KW PL1P/00097363/3 (on shares held)				
Property in Rzeszów land and mortgage register No. KW RZ1Z/00076860/5	PLN 18,182 thousand	Santander Bank Polska SA	contractual joint mortgage	Agreement on EU investment credit in the amount of PLN 12,121 thousand concluded by Makarony Polskie SA
Property in Płock land and mortgage register No. KW PL1P/00094893/6, No. PL1P/00097530/5, land and mortgage register No. KW PL1P/00114158/9 and land and mortgage register No. KW PL1P/00097363/3 (on shares held)				
Property in Rzeszów land and mortgage register No. KW RZ1Z/00076860/5	PLN 373 thousand	Santander Bank Polska SA	contractual joint mortgage	Agreement on granting a bank guarantee in the amount of PLN 249 thousand concluded by Makarony Polskie SA
Property in Płock land and mortgage register No. KW PL1P/00094893/6, No. PL1P/00097530/5, land and mortgage register No. KW PL1P/00114158/9 and land and mortgage register No. KW PL1P/00097363/3 (on shares held)				
Property in Rzeszów land and mortgage register No. KW RZ1Z/00076860/5	PLN 1,517 thousand	Santander Bank Polska SA	contractual joint mortgage	Agreement on granting a bank guarantee in the amount of PLN 1,011

Property in Płock land and mortgage register No. KW PL1P/00094893/6, No. PL1P/00097530/5, land and mortgage register No. KW PL1P/00114158/9 and land and mortgage register No. KW PL1P/00097363/3 (on shares held)				thousand concluded by Makarony Polskie SA
Property in Rzeszów land and mortgage register No. KW RZ1Z/00076860/5 Property in Płock land and mortgage register No. KW PL1P/00094893/6, No. PL1P/00097530/5, land and mortgage register No. KW PL1P/00114158/9 and land and mortgage register No. KW PL1P/00097363/3 (on shares held)	PLN 4,500 thousand	Santander Bank Polska SA	contractual joint mortgage	Agreement on working capital credit in the amount of PLN 3,000 thousand concluded by Makarony Polskie SA
Property in Częstochowa land and mortgage register No. KW CZ1C/00111425/8	PLN 16,500 thousand	Bank Gospodarstwa Krajowego	contractual joint mortgage	Agreement on credit in current account in the amount of PLN. 6,000 thousand concluded by Makarony Polskie SA
Property in Stoczek Łukowski LU1U/00022979/2				Agreement on non-revolving working capital credit in credit account in the amount of PLN 5,000 thousand concluded by Makarony Polskie SA
Property in Stoczek Łukowski LU1U/00022979/2	PLN 4,500 thousand	Bank Gospodarstwa Krajowego	mortgage	Agreement on credit in current account in the amount of PLN 3,000 thousand concluded by Stoczek Natura Sp. z o.o.
Property in Stoczek Łukowski LU1U/00022979/2	PLN 2,322 thousand	Bank Gospodarstwa Krajowego	mortgage	Agreement on granting a bank guarantee in the amount of PLN 1,549 thousand concluded by Stoczek Natura Sp. z o.o.
Property in Stoczek Łukowski LU1U/00022979/2	PLN,756 thousand	Bank Gospodarstwa Krajowego	mortgage	Agreement on granting a bank guarantee in the amount of PLN 504 thousand concluded by Stoczek Natura Sp. z o.o.
Property in Stoczek Łukowski LU1U/00022979/2	PLN 1,087 thousand	Bank Gospodarstwa Krajowego	mortgage	Agreement on granting a bank guarantee in the amount of PLN 725 thousand concluded by Stoczek Natura Sp. z o.o.
Property in Stoczek Łukowski LU1U/00022979/2	PLN 3,750 thousand	Bank Gospodarstwa Krajowego	mortgage	Agreement on working capital credit in the amount of PLN 2,500 thousand concluded by Stoczek Natura Sp. z o.o.
Property in Stoczek Łukowski LU1U/00022979/2	PLN 7,218 thousand	Bank Gospodarstwa Krajowego	mortgage	Agreement on investment credit in the amount of PLN 4,812 thousand concluded by Stoczek Natura Sp. z o.o.

Note No. 16
Investment properties

	31.12.2019	31.12.2018
Investment property in Rzeszów and in Stoczek Łukowski the beginning of the period	603	643
Increases	0	519
Purchase	0	0
Other	0	519
Decreases	0	559
Purchase	0	0
Other	0	559
Value at the end of the period	603	603

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.

The last valuation by an independent expert was carried out as at the balance sheet date ended on 31 December 2018. In the opinion of the Management Board there were no significant changes in the fair value of the demonstrated investment property as at 31 December 2019.

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.

In 2019, the Company did not change the methodology and level of valuation categorization.

Note No. 17
Goodwill

For the period from 01.01.2019 to 31.12.2019	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 01.01.20178 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**

Goodwill in the amount of PLN 5,949 thousand 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 thousand, and is not subject to amortization.

At the end of 2019, obligatory tests for the goodwill impairment were performed. Tests were performed by discounting free cash flows method, with the following assumptions:

- 5-year forecast period (2020-2024),
- one scenario - realistic,
- financial projections prepared on the basis of historical data taking into account organic plans for the development of the Companies
- discount rates have been set at the level of the average post-tax capital cost (WACC) – 7,1-8,1%,
- growth rate after the forecast period – 0%.

The tests carried out did not show the necessity to make the write downs of the goodwill.

For the impairment tests of brands prepared as at 31 December 2019, 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

Other intangible assets

Changes in intangible assets

for the period from 1 January 2019 to 31 December 2019

	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	1,371	464	11,977
Increases	47	47	0	0	94
- purchase	47	47	0	0	94
Decrease	0	0	0	0	0
Gross value at the end of the period	9,134	1,102	1,371	464	12,071
Amortization value at the beginning of the period	0	259	1,330	443	2,032
increases	0	8	10	17	35
decreases	0	0		0	0
Amortization value at the end of the period	0	267	1,340	460	2,067
Write-down- created	2,641	0	0	0	2,641
Net value at the end of period	6,493	835	31	4	7,363

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

Statement of intangible assets with indefinite useful life

Balance as at 31 December 2019

	Valuation according to purchase price/production cost	Write-down of BO	Created write-down	Reversed write-down	Balance sheet value at the end of the period
Abak brand	4,909	0	0	0	4,909
Tenczynek brand and trademark	4,528	0	2,641	0	1,887
Delli –Susz brand and trademark	55	0	0	0	55
So Food brand	47	0	0	0	47
TOTAL	**9,539**	**0**	**2,641**	**0**	**6,898**

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 2019, 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 Abak, Deli Susz and So Food brands.

Whereas for the Tenczynek brand the tests carried out showed the necessity to make write-down of book value in the amount of PLN 2.6 million. The basis for making the above write-downs was a change in the assessment of attractiveness and development prospects of products offered under the brand, related to the changes in trends on the food market (resignation from vegetable preserves in jars or syrups)

At the end of 2019, 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 (2020-2024),
- 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) – 6,9-7,1%,
- growth rate after the forecast period – 0%.

For the impairment tests of brands prepared as at 31 December 2019, 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.

The above applies to the value of brands and trademarks, with the exception of the Tenczynek brand.

In case of sensitivity analysis of key valuation assumptions for the Tenczynek brand, the tests carried out showed the impact of the change of the assumption on the write-down made:

- increase in the average cost of capital after tax (WACC) by 10% would result in a write-down of PLN 2,822 thousand (growth by PLN 181 thousand from the write-down made),
- decrease in the average cost of capital after tax (WACC) by 10% would result in a write-down of PLN 2,420 thousand (lower by PLN 221 thousand from the write-down made).

Note No. 19
Long-term financial assets

Other long-term financial assets	31.12.2019	31.12.2018
Total long-term financial assets	0	0

Note No. 20
Inventories

Balance as at 31 December 2019

	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	8,705	11	64	11	8,641
Supporting materials	642	0	0	0	642
Products in progress	77	0	1	0	76
Finished goods	10,622	33	51	33	10,571
Goods	602	0	17	0	585
TOTAL	**20,648**	**44**	**133**	**44**	**20,515**

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**

Due to the current inventory rotation, in 2020 the Group plans to use all inventories included in the statement of financial position as at 31 December 2019 in the amount of PLN 20,515 thousand. 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 2019, there were indications of a partial write-down of shares, the Makarony Polskie Group made a write-down on finished products and raw material in the total amount of PLN 133 thousand.

As at 31 December 2019, the value of registered pledges on inventories of finished goods, materials and goods amounted to PLN 5,000 thousand, including:

- collateral of Santander credit agreement - PLN 5,000 thousand

Note No. 21
Receivables

	31.12.2019	31.12.2018
Receivables from deliveries and services from other entities:	20,630	19,037
- short-term part	20,630	19,037
Receivables from subsidiaries:	0	0
- short-term part	0	0
Prepayments:	0	0
- short-term part	0	0
Other receivables: from other entities	4,702	6,562
- short-term part	4,702	6,562

Total value of gross receivables	25,332	25,599
Revaluation write-downs for the beginning of the period	172	76
Recognition in the period of impairment loss	69	96
Reversal in the period of impairment loss	0	0
Impairment loss at the end of the period	241	172
Net receivables	25,091	25,427

Write-downs of receivables

2019	Balance at the beginning of the period	Creation	Use and release	Balance at the end of the period
Write downs of receivables	172	69	0	241

2018	Balance at the beginning of the period	Creation	Use and release	Balance at the end of the period
Write downs of receivables	76	96	0	172

Other short-term receivables	31.12.2019	31.12.2018
Current VAT	2,406	3,441
Current VAT postponed	944	700
Corporate income tax	17	0
Other receivables from employees	0	4
Paid out security deposit	69	73
Prepayments	1,165	2,197
Other	101	147
Total other gross receivables	4,702	6,562
Write downs of receivables	0	0
Other net receivables	4,702	6,562

Gross receivables currency structure

Gross short-term receivables	31.12.2019	31.12.2018
- in the Polish currency	21,635	23,395
- in foreign currencies:	3,697	2,204
a) unit/currency EUR	863	513
in PLN	3,697	2,204
b) unit/currency USD	0	0
in PLN	0	0
a) unit/currency GBP	0	0
in PLN	0	0

Gross short-term receivables	**25,332**	**25,599**

Receivables from deliveries and services –aging

	31.12.2019	31.12.2018
1) Total current	16,114	16,280
2) Total overdue:	4,516	2,757
a) up to 1 month	3,903	2,293
b) over 1 month up to 3 months	81	177
c) over 3 months up to 6 months	61	113
d) over 6 months up to 1 year	242	2
e) over 1 year	229	172
Total receivables from deliveries and services, gross	**20,630**	**19,037**
Write downs of deliveries and services receivables	241	172
Net receivables from deliveries and services	20,389	18,865

Receivables from deliveries and services 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 deliveries 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. 22

Receivables from corporate income tax

	31.12.2019	31.12.2018
Receivables from corporate income tax	17	0

Note No. 23

Borrowings granted

	31.12.2019	31.12.2018
Balance at the beginning of the period	0	0
Borrowing 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 2019, the Makarony Polskie Group did not grant any credits

Note No. 24

Cash and cash equivalents

	31.12.2019	31.12.2018
Cash at bank and in hand	718	359
Total, including:	718	359
- 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. 25

Other assets

Other assets:	31.12.2019	31.12.2018
- long-term part	120	191
- short-term part	361	357

Long-term accruals, as at 31 December 2019, in the amount of PLN 120 thousand include consultancy services and paid subscriptions.

Short-term accruals

Short-term accruals	31.12.2019	31.12.2018
- insurances	203	206
- paid subscriptions	33	32
- fees for provided guarantees	0	3
- consulting services	125	116
- other	0	0
Total	**361**	**357**

Long-term accruals

Long-term accruals	31.12.2019	31.12.2018
- consulting services	106	176
- subscriptions	14	0
- fees for provided guarantees	0	15
Total	**120**	**191**

Note No. 26
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 Meeting 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 2019

	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 '000			
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
Razem			**9,250,071**		**27,750**			

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 '000			
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
Razem			**9,250,071**		**27,750**			

In the period from 31 December 2019 to the date of submitting the statements, Makarony Polskie SA did not perform subsequent issue of shares.

Note No. 27
Supplementary and reserve capital

Supplementary capital	31.12.2019	31.12.2018
Balance at the beginning of the period	46,095	42,184
Changes in accounting principles (policy)	0	0

Balance at the beginning of the period after adjustments (after transformation)	46,095	42,184
- issue of share capital	0	0
- profit distribution/loss coverage	3,060	3,911
- creation of reserve capital	12,000	
Other capitals at the end of the period	37,155	46,095

Reserve capital	31.12.2019	31.12.2018
Balance at the beginning of the period	0	0
- creation of reserve capital –own shares	12,000	0
Reserve capital at the end of the period	12,000	0

Note No. 28

Result from previous years

Profit/loss from previous years	31.12.2019	31.12.2018
Balance at the beginning of the period	4,653	5,064
Mistakes adjustment	0	0
- profit/loss from previous years at the beginning of the period	4,653	5,064
-decreases due to transfer to supplementary capital	- 3,060	- 3,911
- dividend payout	- 2,313	- 2,313
Reversal of realized margin from previous years		8
Net profit/loss at the end of the period	**-720**	**- 1,152**

In 2019 Makarony Polskie SA adjusted the financial statements for the previous years concerning the mistake made in the previous period when not calculating depreciation charges for the acquired right of perpetual usufruct of land, the value of land executed before 31 December 2018, the amount of PLN 332 thousand (of which PLN 307 thousand relates to the period until 31 December 2017) – annual depreciation rate of 1.21%

Result from previous years as at 31 December 2018

Profit/loss from previous years	31.12.2018- after adjustment	31.12.2018 adjustment	31.12.2018
Balance at the beginning of the period	6,093	6,093	6,093
Mistakes adjustment	- 1,021	- 307	-714
- profit/loss from previous years at the beginning of the period – mistakes adjustment	5,072	5,786	5,379
-decreases due to transfer to supplementary capital	- 3,911	- 3,911	- 3,911
- dividend payout	- 2,313	- 2,313	- 2,313
Net profit/loss at the end of the period	**- 1,152**	**- 437**	**- 845**

The following transformations were made for statements in 2018:

Statement of total income as at 31 December2018

FOR THE PERIOD	01.01.2018-31.12.2018-after adjustment	Adjustment	01.01.2018-31.12.2018-before adjustment
Costs of manufacturing of products and services sold	114,170	13	114,157
Costs of sales	19,715	10	19,705
Costs of general management	6,920	2	6,918
Profit (loss) on continued operations	8,320	(25)	8,345
Gross profit	7,307	(25)	7,332
Net profit (loss) on continued operations	5,805	(25)	5,830
including attributable to the shareholders of the Parent Company	*5,805*	*(25)*	*5,830*
Not-controlling shares	0	0	0
Basic net result per share in PLN	0.63	0	0.63
Diluted net result per share in PLN	0.63	0	0.63
Other comprehensive income/losses, net	0	0	0
Total net comprehensive income	5,805	(25)	5,830
Net comprehensive income attributed to the shareholders of the Parent Company	*5,805*	*(25)*	*5,830*

Statement of financial position as at 31 December 2018

ASSETS/EQUITY AND LIABILITIES	01.01.2018-31.12.2018-after adjustment	Adjustment	01.01.2018-31.12.2018 before adjustment
FIXED ASSETS	**101,160**	**(332)**	**101,492**
Tangible fixed assets	84,471	(332)	84,803
TOTAL ASSETS	**145,460**	**(332)**	**145,792**
EQUITY	**78,498**	**(332)**	**78,830**
Retained profit/loss	(1,152)	(307)	(845)
Net profit/loss	5,805	(25)	5,830
TOTAL EQUITY AND LIABILITIES	**145,460**	**(332)**	**145,792**

Statement of cash flows in 2018

FOR THE PERIOD	01.01.2018-31.12.2018-after adjustment	Adjustment	01.01.2018-31.12.2018-before adjustment
Cash flows on operating activities			
Profit before tax	**7,307**	**(25)**	**7,332**
Adjustments for items:	**6,730**	**25**	**6,705**
Depreciation	5,764	25	5,739

Statement of changes in equity

period from 1 January 2018 to 31 December 2018 – after adjustment

	Share capital	Supplementary capital	Current year result	Profit/loss from previous years	Total
Balance as at 1 January 2018	27,750	42,184		5,064	74,998
Profit distribution/loss coverage		3,911		- 3,911	0
Profit distribution – dividend payout				-2,313	- 2,313
Reversal of unrealized margin from previous years				8	8
Other comprehensive income					
Net result in 2018			5,805		5,805
Balance as at 31 December 2018	27,750	46,095	5,805	- 1,152	78,498

period from 1 January 2018 to 31 December 2018 Equity – before adjustment

	Share capital	Supplementary capital	Current year result	Profit/loss from previous years	Total
Balance as at 1 January 2018	27,750	42,184	0	5,371	75,305
Profit distribution/loss coverage	0	3,911	0	-3,911	0
Other comprehensive income	0	0	0	7	7
Dividend payout	0	0	0	- 2,313	-2,313
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

The companies of the Group transformed the financial statements for 2018, taking into account the above presented and described changes.

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

Note No. 29

Information on credits and sureties obtained as at 31 December 2019.

Long- and short-term credits and borrowings

	31.12.2019	31.12.2018
- long-term part	17,995	10,541
- short-term part	16,500	14,170
Total	**34,495**	**24,711**

The balance of credit ad factoring agreements binding as at 31 December 2019, in which Makarony Polskie SA was the party, is presented in the tables below:

– Credit in the current account at Santander Bank Polska SA

Credit conditions	31 December 2018
Credit agreement value	PLN 5,000 thousand
Credit period	18.10.2013 – 31.05.2020
Interest rate	WIBOR 1M + bank margin compliant with the standards applied by the bank
Credit balance	PLN 2,172 thousand
Repayment schedule	One-off at the date of maturity
Credit collateral	– Joint mortgage up to PLN 33,000,000 on properties entered in: a) land and mortgage register No. KW RZ1Z/00076860/5 located in Rzeszów and land and mortgage register No. KW PL1P/00094893/6 located in Płock, including the assignment of rights under the property insurance policy, b) land and mortgage register No. KW PL1P/00097530/5, land and mortgage register No. KW PL1P/00114158/9 and land and mortgage register No. KW PL1P/00097363/3 (on shares held) in Płock; – blank promissory note issued by the Company and promissory note declaration, – registered pledge on inventories of the value not lower than PLN 5,000,000, including the assignment of rights under the registered pledge insurance policy, – security bond by Stoczek Natura Sp. z o.o.; – declaration on submission to enforcement, made pursuant to Article 777 of the Code of Civil Procedure in the form of a notarial deed.

In Q.2, 2019 Makarony Polskie SA signed an annex to the agreement on credit in the current account with Bank Zachodni WBK. Pursuant to the annex the liability repayment date was extended till 31 May 2020.

– Investment credit at Santander Bank Polska SA

Credit conditions	31 December 2019
Credit agreement value	PLN 13,849 thousand
Credit period	18.10.2013 – 30.12.2023
Interest rate	WIBOR 3M + bank margin compliant with the standards applied by the bank
Credit balance	PLN 5,077 thousand
Repayment schedule	The credit will be repaid in 49 monthly instalments in the following amounts: 48 instalments of PLN 105 thousand each, plus the last 49th settlement instalment in the amount of PLN 204,000.
Credit collateral	– Joint mortgage up to PLN 17,000 thousand on properties entered in: a) land and mortgage register No. KW RZ1Z/00076860/5 located in Rzeszów and land and mortgage register No. KW PL1P/00094893/6 located in Płock, including the assignment of rights under the property insurance policy, b) land and mortgage register No. KW PL1P/00097530/5, land and mortgage register No. KW PL1P/00114158/9 and land and mortgage register No. KW PL1P/00097363/3 (on shares held) in Płock; – registered pledge on fixed assets (production lines at the Rzeszów plant) including the assignment of rights under the the object of the pledge, – blank promissory note issued by the Company and promissory note declaration, – civil-law security bond by 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 December 2019 Makarony Polskie SA concluded with Santander Bank Polska SA an annex to the investment credit agreement which introduced the following amendments to the agreement:

- it extended the repayment date of the liability until 30 December 2023 (the previous date was 30 April 2020),
- it introduced a new repayment schedule in such a manner that the credit will be repaid in 49 monthly instalments, in the following amounts: 48 instalments of PLN 105 thousand each and the last 49th settlement instalment of PLN 204 thousand,
- it adjusted the value of collateral to the credit exposure of the Bank,
- it standardized the liabilities of the Company in accordance with other credit agreements with the Bank (e.g. standardizing a definition of covenants).

– EU investment credit at Santander Bank Polska SA

Credit conditions	31 December 2019
Credit agreement value	PLN 12,121 thousand

Credit period	07.02.2017 - 28.12.2023
Interest rate	WIBOR 3M + bank margin compliant with the standards applied by the bank
Credit balance	PLN 7,801 thousand
Repayment schedule	The credit will be repaid in 37 monthly instalments in the following amounts: 36 instalments in the amount of PLN 50 thousand, the 37th in the amount of PLN 9,061 thousand, EU refinancing granted will decrease the balloon instalment
Credit collateral	– Joint mortgage up to PLN 18,200 thousand on properties entered in: a) land and mortgage register No. KW RZ1Z/00076860/5 in Rzeszów and land and mortgage register No. KW PL1P/00094893/6 in Płock including the assignment of rights under the property insurance policy, b) land and mortgage register No. PL1P/00097530/5, land and mortgage register No. PL1P/00114158/9 and land and mortgage register No. PL1P/00097363/3 (on shares held) in Płock; – registered pledge on semi-industrial line for trials and tests with accessories, including the assignment of rights under the property insurance policy – blank promissory note issued by the Company and promissory note declaration, – civil-law security bond by 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 credit is intended for financing the investment project "Creation of the Research and Development Center of Pasta Industry at Makarony Polskie SA"

In December 2019 Makarony Polskie SA concluded with Santader Bank Polska SA an annex to the EU investment credit agreement which introduced the following changes:

- it extended the credit limit disbursement period until 30 September 2020 (the previous date was 31 March 2020),
- it extended the repayment date of the liability until 28 December 2023 (the previous date was 28 February 2022),
- it introduced a new repayment schedule in such a manner that the credit will be repaid in 37 monthly instalments, in the following amounts: 36 instalments of PLN 50 thousand, the 37th instalment of PLN 9,061 thousand, the received refinancing will reduce the balloon instalment,
- it standardized the liabilities of the Company in accordance with other credit agreements with the Bank (e.g. standardizing a definition of covenants).

– EU investment credit at Santander Bank Polska SA

Credit conditions	31 December 2019

Credit agreement value	PLN 8,000 thousand
Credit period	15.09.2017 - 31.12.2023
Interest rate	WIBOR 3M + bank margin compliant with the standards applied by the bank
Credit balance	PLN 1,558 thousand
Repayment schedule*	The credit will be repaid in 49 capital instalments, of which 48 instalments in the amount of PLN 33 thousand, the 49th instalment in the amount of PLN 79 thousand
Credit collateral	– Joint mortgage up to PLN 2,500 thousand on properties entered in: a) land and mortgage register No. KW RZ1Z/00076860/5 in Rzeszów and land and mortgage register No. KW PL1P/00094893/6 in Płock including the assignment of rights under the property insurance policy, b) land and mortgage register No. KW PL1P/00097530/5, land and mortgage register No. KW PL1P/00114158/9 and land and mortgage register No. KW PL1P/00097363/3 (on shares held) in Płock; – registered pledge the acquired line under the grant project including the assignment of rights under the pledge object policy, – blank promissory note issued by the Company and 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 credit is intended for financing the investment project entitled "Implementation of the Results of R&D Works on Functional Food at Makarony Polskie SA

In December 2019 Makarony Polskie SA concluded with Santander Bank Polska SA an annex to the EU investment credit agreement which introduced the following changes:

- it extended the repayment date of the liability until 31 December 2023 (the previous date was 31 January 2022),
- it introduced a new repayment schedule in such a manner that the credit will be repaid in 49 principal instalments, of which 48 instalments in the amount of PLN 33 thousand, the 49th instalment in the amount of PLN 79 thousand,
- it adjusted the value of collateral to the credit exposure of the Bank,
- it standardized the liabilities of the Company in accordance with other credit agreements with the Bank (e.g. standardizing a definition of covenants).

– Working capital credit at Santander Bank Polska SA

Credit conditions	31 December 2019
Credit agreement value	PLN 3,000 thousand
Credit period	30.09.2019 - 30.09.2022

Interest rate	WIBOR 1M + bank margin compliant with the standards applied by the bank
Credit balance	PLN 3,000 thousand
Repayment schedule	The credit will be repaid in 33 monthly instalments, starting from 31 January 2020 in the amount of PLN 0.09 million
Credit collateral	– joint mortgage up to PLN 4,500 thousand on properties entered in: a) land and mortgage register No. KW RZ1Z/00076860/5 in Rzeszów and land and mortgage register No. KW PL1P/00094893/6 in Płock, including the assignment of rights under the property insurance policy, b) land and mortgage register No. KW PL1P/00097530/5, KW PL1P/00114158/9 and KW PL1P/00097363/3 (on shares held) in Płock; – registered pledge on fixed assets (production lines in the plant in Rzeszów), including the assignment of rights under the pledge object policy, – blank promissory note issued by the Company and 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.

– Revolving credit at Santander Bank Polska SA

The credit is intended on financing VAT on the purchases made within investment projects.

In Q.2, 2019 the Company concluded with the Bank an annex to the revolving credit agreement the subject of which was the termination of this agreement.

– Credit in the current account at Bank Gospodarstwa Krajowego

Credit conditions	31 December 2019
Credit agreement value	PLN 6,000 thousand
Credit period*	14.06.2013 – 30.06.2020
Interest rate	WIBOR 3M + bank margin compliant with the standards applied by the bank
Credit balance	PLN 5,568 thousand
Repayment schedule	One-off at the date of maturity
Credit collateral	– joint mortgage up to PLN 16,500 thousand on properties entered in: a) land and mortgage register No. KW CZ1C/00111425/8 in Częstochowa, including the assignment of rights under the property insurance policy, – b) land and mortgage register No. KW LU1U/00022979/2 in Stoczek Łukowski (property of Stoczek Natura Sp. z o.o.) including the assignment of rights under the property insurance policy, – blank promissory note issued by the Company and promissory note declaration,

	– power of attorney to dispose of the current account at the Bank, – security bond by 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 (up to PLN 12 million).

In the financial year 2019 Makarony Polskie SA concluded with Bank Gospodarstwa Krajowego an annex to the credit opened in the current account which extended the repayment date of the liability from 30 June 2019 to 30 June 2020.

– Not-revolving working capital credit in the credit account at Banku Gospodarstwa Krajowego

Credit conditions	31 December 2019
Credit agreement value	PLN 5,000 thousand
Credit period*	30.06.2015 – 29.06.2020
Interest rate	WIBOR 3M + bank margin compliant with the standards applied by the bank
Credit balance	PLN 500 thousand
Repayment schedule*	20 equal, quarterly capital instalments in the amount of PLN 0.25 million starting from 30 September 2015 to 29 June 2020.
Credit collateral	– joint mortgage up to PLN 16,500 thousand on properties entered in: a) land and mortgage register No. KW CZ1C/00111425/8 in Częstochowa including the assignment of rights under the property insurance policy, – b) land and mortgage register No. KW LU1U/00022979/2 in Stoczek Łukowski (property of Stoczek Natura Sp. z o.o.) including the assignment of rights under the property insurance policy, – blank promissory note issued by the Company and promissory note declaration, – power of attorney to dispose of the current account at the Bank, – security bond by 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 (up to PLN 4 million).

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

Agreement conditions	31 December 2019
Contractual value	PLN 4,500 thousand
Duration	Agreement concluded for an indefinite period
Interest rate	WIBOR 1M + bank margin compliant with the standards applied by the bank
Factoring balance	PLN 4,311 thousand
Agreement collateral	– irrevocable power of attorney to the account, – blank promissory note and promissory note declaration.

As at 31 December 2019 Stoczek Natura Sp. z o.o. was a party to credit agreements and their balance is presented in the table below:

– Credit in the current account at Bank Gospodarstwa Krajowego

Credit conditions	31 December 2019
Credit agreement value	PLN 3,000 thousand
Credit period*	16.11.2017 – 16.11.2020
Interest rate	WIBOR 3M + bank margin compliant with the standards applied by the bank
Credit balance	PLN 2,967 thousand
Repayment schedule	One-off at the date of maturity
Credit collateral	– contractual mortgage up to PLN 4,500 thousand on the property entered in land and mortgage register No. KW LU1U/00022979/2 located in Stoczek Łukowski LU1U/00022979/2 including the assignment of rights under the property insurance policy, – power of attorney to dispose of the current account at the Bank, – registered pledge on a collection of machinery and equipment (located in the plant in Stoczek Łukowski) including the assignment of rights under the property insurance policy, – security bond by Makarony Polskie SA, – declaration 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 million).

In the financial year 2019 Stoczek Natura Sp. z o.o. concluded with Bank Gospodarstwa Krajowego an annex to the credit opened in the current account which extended the repayment date of the liability from 16 November 2019 to 16 November 2020.

– Revolving working capital credit at Bank Gospodarstwa Krajowego*

Credit conditions	31 December 2019
Credit agreement value	PLN 2,500 thousand
Credit period	08.07.2019 – 08.10.2020
Interest rate	WIBOR 3M + bank margin compliant with the standards applied by the bank
Credit balance	PLN 2,500 thousand
Repayment schedule	in two instalments: PLN 1.9 million up to 8 April 2020; PLN 0.6 million up to 8 October 2020

Credit collateral	– contractual mortgage up to PLN 3,750 thousand on the property entered in land and mortgage register No. KW LU1U/00022979/2 in Stoczek Łukowski, including the assignment of rights under the property insurance policy, – power of attorney to dispose of the current account at the Bank, – blank promissory note issued by the Company and promissory note declaration, – security bond by Makarony Polskie SA, – declaration 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 5 million).

– Investment credit at Bank Gospodarstwa Krajowego*

Credit conditions	31 December 2019
Credit agreement value	PLN 4,812 thousand
Credit period	08.07.2019 – 08.05.2025
Interest rate	WIBOR 3M + bank margin compliant with the standards applied by the bank
Credit balance	PLN 3,348 thousand
Repayment schedule	in 54 monthly instalments, in which 53 equal capital instalments in the amount of PLN 90 thousand each, starting from 30.11.2020 and the last 54th settlement instalment in the amount of PLN 42 thousand
Credit collateral	– contractual mortgage up to PLN 7,218 thousand on the property entered in land and mortgage register No. KW LU1U/00022979/2 in Stoczek Łukowski, including the assignment of rights under the property insurance policy, – power of attorney to dispose of the current account at the Bank, – registered pledge on a collection of machinery and equipment (located in the plant in Stoczek Łukowski), including the assignment of rights under the property insurance policy, – blank promissory note issued by the Company and promissory note declaration, – security bond by Makarony Polskie SA, – declaration 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 9.6 million).

* Credits of the total value of PLN 7.3 million taken out by Stoczek Natura Sp. z o.o. at Bank Gospodarstwa Krajowego in July 2019 intended for financing the investment related to the project of implementation of innovative solutions through modernization of the line for production of ready-made dishes in jars and cans, as well as introduction to the company's offer of new, innovative products on trays. As part of the project, Stoczek Natura Sp. z o.o. completed the purchase of fixed assets and modernization of the production rooms.

Information on borrowings granted

As at 31 December 2019 Makarony Polskie SA granted a short-term borrowing to its subsidiary Stoczek Natura Sp. z o.o. in the amount of PLN 2.0 million with the repayment date on 31

December 2020 (one-off repayment by the date of the loan maturity). The interest rate on the borrowing was set on arm's length basis.

Stoczek Natura Sp. z o.o. and MP Trade Sp. z o.o. did not grant any borrowings in 2019.

Information on security bonds granted and obtained

Makarony Polskie SA granted security bonds to Stoczek Natura Sp. z o.o. subsidiary, the balance of the security bonds as at 31 December 2019 is presented below:

Third party liabilities	Name of creditor	Security bond value PLN '000	Validity date	Balance of the secured liability in PLN '000 as at 31.12.2019
Security bond for a credit in the current account amounting to PLN 3.0 million	Bank BGK	3,000	16.05.2021	2,967
Security bond for a revolving credit amounting to PLN 2.5 million *	Bank BGK	2,500	08.04.2021	2,500
Security bond for an investment credit amounting to PLN 4.8 million	Bank BGK	4,812	08.11.2025	3,348
Security bond for a bank guarantee amounting to PLN 0.5 million	Bank BGK	504	13.06.2022	-
Security bond for a bank guarantee amounting to PLN 1.5 million	Bank BGK	1,549	15.06.2022	-
Security bond for a bank guarantee amounting to PLN 0.7 million	Bank BGK	725	29.02.2024	-

Makarony Polskie SA received remuneration for the security bonds granted.

Stoczek Natura Sp. z o.o. granted security bonds to the Parent Company Makarony Polskie SA. The balance of the security bonds as at 31 December 2019 is presented below:

Third party liabilities	Name of creditor	Security bond value PLN '000	Validity date	Balance of the secured liability in PLN '000 as at 31.12.2019
Security bond for a credit in the current account amounting to PLN 5.0 million	Santander Bank Polska SA	7,500	30.04.2023	2,172

Security bond for an investment credit amounting to PLN 13.8 million	Santander Bank Polska SA	30,000	30.09.2021	5,077
Security bond for a non-revolving working capital credit in the credit account amounting to PLN 5.0 million *	Bank BGK	5,000	29.12.2020	500
Security bond for a credit in the current account amounting to PLN 6.0 million *	Bank BGK	6,000	30.12.2020	5,568
Security bond for an EU investment credit amounting to PLN 12.1 million	Santander Bank Polska SA	12,121	binding till the moment of the subsidy settlement	7,801

Stoczek Natura Sp. z o.o. received remuneration for granting the security bonds.

MP Trade Sp. z o.o. did not grant any security bonds in the reporting year 2019.

Note No. 30
Guarantees granted and obtained

In 2019 the Group companies did not grant any guarantees. As regards guarantees obtained, Makarony Polskie SA and Stoczek Natura Sp. z o.o. availed of guarantees.

All guarantees binding for Makarony Polskie SA as at 31 December 2019 are presented in the table below:

Guarantor	Guarantee amount PLN '000	Guarantee validity	Object of guarantee	Collateral
Santander Bank Polska SA	1,011	until 28.12.2021	guarantee securing the Company's obligations under the agreement for storing pasta, under the contract concluded with the Material Reserves Agency (ARM)	– joint mortgage up to PLN 1,517 thousand on properties entered in land and mortgage register No. KW RZ1Z/00076860/5 in Rzeszów and KW PL1P/00094893/6 in Płock including the assignment of rights under the property insurance policy, – blank promissory note and promissory note declaration

Santander Bank Polska SA	249	until 22.01.2021	guarantee securing the Company's obligations under the agreement for storing pasta, under the contract concluded with the Material Reserves Agency (ARM)	– joint mortgage up to PLN 373 thousand on properties entered in land and mortgage register No. KW RZ1Z/00076860/5 in Rzeszów and KW PL1P/00094893/6 in Płock including the assignment of rights under the property insurance policy, – blank promissory note and promissory note declaration

Statement of guarantees applicable in Stoczek Natura Sp. z o.o. as at 31 December 2019 is shown in the table below:

Guarantor	Guarantee amount in PLN '000	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 dishes, under the contract concluded with the Material Reserves Agency (ARM)	– mortgage up to PLN 756 thousand on the property entered into land and mortgage register No. KW LU1U/00022979/2 in Stoczek Łukowski, including the assignment of rights under the property insurance policy; – blank promissory note issued by the Company and promissory note declaration; – power of attorney to dispose of the current account at the Bank; – security bond by 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 dishes, under the contract concluded with the Material Reserves Agency (ARM)	– mortgage up to PLN 2,323 thousand on the property entered in land and mortgage No. KW LU1U/00022979/2 in Stoczek Łukowski, including the assignment of rights under the property insurance policy; – blank promissory note issued by the Company and promissory note declaration; – power of attorney to dispose of the current account at the Bank; – security bond by 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 the Material Reserves Agency (ARM)	– blank promissory note issued by the Company and promissory note declaration; – power of attorney to dispose of the current account at the Bank
Bank Gospodarstwa Krajowego	725	unitl 31.08.2023	guarantee securing the Company's obligations under the agreement for	– mortgage up to PLN 1,088 thousand on the property entered in land and mortgage register No. KW LU1U/00022979/2 in Stoczek Łukowski including the assignment

			storing preserves, under the contract concluded with the Material Reserves Agency (ARM)	of rights under the property insurance policy; – blank promissory note issued by the Company and promissory note declaration; – power of attorney to dispose of the current account at the Bank; – security bond by Makarony Polskie SA; – declaration 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 1.5 million).

Note No. 31

Provision for pensions and similar

2019	Balance at the beginning of the period	Creation	Use and release	Balance at the end of the period
For retirement and similar benefits, including:	1,327	97	12	1,412
a) long-term	285	72	0	357
b) short-term	1,042	25	12	1,055
Other provisions, including:	0	13	0	13
a) provision for financial statements auditing	0	0	0	0
b) other	0	13	0	13
Total	1,327	110	12	1,425

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

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.

The Company creates a "provision" (recognized as part of accruals) for unused leave which relates to the periods preceding the balance sheet date and will be taken in the future. The amount of provision depends on the average monthly remuneration and a number of days off unused to which the employee is entitled as at the balance sheet date.

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. 32
Long-term and short-term financial liabilities

Liabilities from finance leasing contracts

	Total present value of minimum fees	
	as at 31.12.2019	as at 31.12.2018
up to 1 year	762	944
in the period from 1 to 5 years	1,160	1,229
Total	**1,922**	**2,173**

Liabilities from finance leasing contracts:-IFRS-16

	Total present value of minimum fees	
	as at 31.12.2019	as at 31.12.2018
up to 1 year - lease	880	0
up to 1 year – right to perpetual usufruct of land	4	0
in the period from 1 to 5 years-lease	2,080	0
in the period of - right to perpetual usufruct of land	1,195	0
Total	**4,159**	**0**

As of 1 January 2019 Makarony Polskie SA introduced to fixed assets the values by virtue of disclosures as a result of applying IFRS-16, fixed assets used on the basis of leasing agreements.

The carrying value of fixed assets as at 31 December 2019 amounted to PLN 4,091 thousand, including the ones by virtue of lease of the rooms, the amount of PLN 2,906 thousand and right to perpetual usufruct of land, amount of PLN 1,185 thousand.

Other financial liabilities – hedge accounting

	As at 31.12.2019	As at 31.12.2018
up to 1 year	0	0
in the period from 1 to 5 years	0	0
Total	**0**	**0**

Note No. 33

Other liabilities

	31.12.2019	31.12.2018
Liabilities for deliveries and services from other entities:	**31,667**	**26,216**
- long-term part	0	0
- short-term part	31,667	26,216
Liabilities towards subsidiaries	**0**	**0**
- long-term part	0	0
- short-term part	0	0
Liabilities towards entities	**0**	**0**
Prepayments:	14	130
Other liabilities:	**2,418**	**1,865**
- long-term part	0	0
- short-term part	2,418	1,865
Total liabilities	**34,099**	**28,211**

Liabilities from deliveries and services	31.12.2019	31.12.2018
- towards affiliates	0	0
- towards other entities	31,667	26,216
Total	**31,667**	**26,216**

Public, legal and other obligations	31.12.2019	31.12.2018
- personal income tax	181	186
- Social security costs	655	462
- VAT	21	0
- wages and salaries	779	652
- State Fund for Rehabilitation of Persons With Disabilities	13	10
- corporate income tax- CIT -8	426	220
- corporate income tax - CIT -10 Z	6	0

- other	337	335
Total	**2,418**	**1,865**

Other liabilities with CIT tax – currency structure

	31.12.2019	31.12.2018
- in the Polish currency	26,598	22,550
- in foreign currencies:	7,501	5,661
a) unit/currency EUR	1,761	1,317
in PLN	7,501	5,661
b) unit/currency GBP	0	0
in PLN	0	0
Total	**34,099**	**28,211**

Liabilities for deliveries and services - aging

	31.12.2019	31.12.2018
1) Total current	24,926	21,811
2) Total overdue:	6,741	4,405
a) up to 1 month	5 349	4,221
b) over 1 month up to 3 months	1,252	131
c) over 3 months up to 6 months	53	29
d) over 6 months up to 1 year	60	1
e) over 1 year	27	23
Total liabilities from deliveries and services	**31,667**	**26,216**

Note No. 34

Revenues of future periods

	31.12.2019	31.12.2018
Revenues of future periods	**14,017**	**6,971**
- long-term part	13,042	6,062
- short-term part	975	909

The short- and long-term part of accruals includes subsidies for the purchase of machinery and equipment received by the companies of the Group. The subsidy amounts were granted in 2006, 2009 and in 2019.

In 2019 Makarony Polskie SA and Stoczek Natura Sp. z o.o. received funding for the following projects:

- Makarony Polskie SA
  - the project entitled "Implementation of the Results of R&D Works on Functional Food at Makarony Polskie SA" (co-financing agreement No. RPPK.01.04.01-18-0497/16-00), implemented under Measure 1.4 "Support for SMEs", Sub-measure 1.4.1 "Direct subsidies" of the Regional Operation Program of the Podkarpackie Province for the years 2014-2020 under Priority Axis 1. Competitive and innovative economy.
    Co-financing 60% of eligible costs, amount 5,500 thousand.
  - project entitled "Creation of the Research and Development Center of Pasta Industry at Makarony Polskie SA", (co-financing agreement No. POIR.02.01.00-00-0121/16-00), implemented under Measure 2.1 Support for investment in enterprise R&D infrastructure, Intelligent Development Operational Program 2014-2020. As part of this project, the Company received co-financing in advance payments in the amount of PLN 1,260 thousand.
- Stoczek Natura Sp. z o. o
  - project RPLU.03.07.00-06-0039/17-00 "Increase in the competitiveness of Stoczek Natura"
    Co-financing 60% of eligible costs, amount 1,099 thousand.
  - project POPW.01.04.00-06-0015/18 "Introduction of product innovation to increase the competitiveness of Stoczek Nautra Sp. z o.o."
  - Co-financing 50% of eligible costs, amount 94 thousand.

Subsidies relate to the components of fixed assets, their fair value is recognized in the account of accruals and then, gradually through equal annual write-downs it is written down in the statement of comprehensive income over the estimated useful life of the related asset.

In 2019 the Group released the amount of PLN 816 thousand from the deferred income and recognized it under other operating income.

Note No. 35
Off-balance items

(in PLN '000)	31 December 2019	31 December 2018
1. Contingent assets	**4,062**	**3,962**
- received guarantees and security bonds	4,062	3,337

- collaterals on assets	0	0
- promissory notes	0	625
2. Contingent liabilities	**198,995**	**174,662**
- for received guarantees and security bonds	0	5,025
- collaterals on property	124,653	116,517
- promissory note obligations	74,342	53,120
Total off-balance items	**-194,933**	**-170,700**

The values of received guarantees, 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. 36
Transactions with affiliates

Dividends paid and proposed for payment

In 2019 the Management Board of the Company recommended to the Annual General Meeting that the net profit for the financial year 2018 in the amount of PLN 5,069,631.54 be divided in the following manner:

- the amount of PLN 2,312,517.75 to be allocated to the dividend payout, i.e. the dividend payout in the amount of PLN 0.25 gross per share,
- the remaining part of the profit amounting to PLN 2,757,113.79 to be allocated to the supplementary capital of the Company.

- On 18 June 2019 the Annual General Meeting of Makarony Polskie SA adopted the resolution No. 15 in dividend payout in the amount of PLN 2,312,517.75, that is PLN 0.25 gross per share.

The dividend day was set for 14 August 2019. The dividend was paid out on 29 August 2019. There were 9,250,071 shares of the Company entitled to the dividend.

In 2020 the Management Board of the Company decided to recommend to the Annual General Meeting that the net profit for the period from 1 January 2019 to 31 December 2019 amounting to PLN 5,585,504.32 be divided in the following manner:

- the amount of PLN 2,312,517.75 to be allocated to the dividend payout, i.e. the dividend payout in the amount of PLN 0.25 gross per share,
- the remaining part of the profit amounting to PLN 3,272,986.57 to be allocated to the supplementary capital of the Company.

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 financial year 2019 will be taken by the Annual General Meeting 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 Annual General Meeting, 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

In 2019, the companies of the Makarony Polskie Group did not conclude with each other any significant transactions on conditions other than market conditions.

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 31.12.2019	For the period from 01.01 to 31.12.2018	For the period from 01.01 to 31.12.2019	For the period from 01.01 to 31.12.2018
Parent Company - Makarony Polskie S.A.	379	644	24,909	23,523
from/to Stoczek Sp. z o.o.	326	593	23,565	21,636
from/to MP Trade Sp. z o.o.	53	51	1,344	1,887

Affiliate	Receivables from affiliates	Liabilities towards affiliates

	As at 31.12.2019	As at 31.12.2018	As at 31.12.2019	As at 31.12.2018
Parent Company - Makarony Polskie S.A.	2,885	167	406	1,305
- from/to Stoczek Sp. z o.o.	2,880	162	7	889
from/to MP Trade Sp. z o.o.	5	5	399	416

Settlements between subsidiaries

Subsidiaries	Sales between subsidiaries - total revenues		Purchases between subsidiaries	
	For the period from 01.01 to 31.12.2019	For the period from 01.01 to 31.12.2018	For the period from 01.01 to 31.12.2019	For the period from 01.01 to 31.12.2018
Total subsidiary	4	228	4	228
- from/to Stoczek Sp. o.o.	4	7	0	221
from/to MP Trade Sp. z o.o.	0	221	4	7

Subsidiaries	Receivables between subsidiaries		Liabilities between subsidiaries	
	As at 31.12.2019	As at 31.12.2018	As at 31.12.2019	As at 31.12.2018
Total subsidiary	0	0	0	0
- from/to Stoczek Sp. o.o.	0	0	0	0
from/to MP Trade Sp. z o.o.	0	0	0	0

Note No. 37

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

In 2019, there were no unusual items, other than those described in the Company's financial statements, due to their nature, size or scope.

Note No. 38
Material Agreements

Agreement 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.

Agreement with Lidl chain

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 chain.

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

In the period from March 2017 to April 2019 the Company was performing the agreement on co-financing the project entitled "Implementation of the Results of R&D Works on Functional Food at Makarony Polskie SA". The agreement was concluded with the Authorities of the Podkarpackie Province, and the project received a subsidy under Measure 1.4 "Support for SMEs" of the Regional Operational Program of the Podkarpackie Province for the years 2014-2020.

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

As part of the project, the Company completed the expansion of the machine park with modern machines and production equipment allowing for the organization of individual production conditions necessary for the production of pasta with innovative composition, among others, a modern line for pasta production was purchased.

The total cost of the project was PLN 12.3 million, the amount of subsidy was approximately PLN 5.5 million.

Agreement on co-financing of the project entitled "Creation of a Research and Development Centre for the Pasta Industry at Makarony Polskie SA"

Starting from April 2017 the Company had been performing the agreement on co-financing of the project entitled "Creation of a Research and Development Centre for the Pasta Industry at Makarony Polskie SA". The agreement was concluded with the Ministry of Development and Finance, the project received a subsidy within Measure 2.1 "Support for Investments in R&D Infrastructure of Enterprises", under the Smart Growth Operational Program 2014–2020.

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

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

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

In February 2020, the Company entered into an annex with the Ministry of Investment and Economic Development, the purpose of which was to postpone the project completion deadline to 31 December 2020 (the previous date was 31 March 2020). The request of the Company for a change of the project deadline resulted from the changes in the schedule of the construction works. The postponement of the project completion date will enable the Company to thoroughly fulfil its obligations and complete the project in accordance with the assumptions.

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

Annexes to credit agreements with Santander Bank Polska SA

During the financial year and after the balance sheet date, Makarony Polskie SA concluded annexes to agreements on credit taken out at Santander Bank Polska SA, which were described in detail under "other financial information".

Credit agreements with Bank Gospodarstwa Krajowego

- In June 2019 the Company concluded with Bank Gospodarstwa Krajowego an annex to the agreement on credit in current account with credit limit of PLN 6.0 million. The annex extends the term of liability payment from 30 June 2019 until 30 June 2020. Other important terms and conditions of the credit agreement shall remain unchanged. Pursuant to the above-mentioned annex, the term of the security bond granted to Makarony Polskie SA by its subsidiary Stoczek Natura Sp. z o.o. was extended. The term of the security bond of the agreement on credit in the current account is 30 December 2020 (the previous validity date was 30 December 2019). The detailed terms and conditions of the security bond granted are not different from the standard market terms in that regard. The remuneration of Stoczek Natura Sp. z o.o. consists of the commission on account of the security bond granting.
- In July 2019, Stoczek Natura Sp. z o.o. subsidiary concluded with Bank Gospodarstwa Krajowego credit agreements fulfilling the criteria of the significant agreement of the total value of PLN 7.3 million. The highest value agreement is the investment credit agreement amounting to PLN 4.8 million with the final repayment date on 8 May 2025. The credit is intended for financing the investment related to the project of innovative solutions implementation by modernization of the production line for ready-made dishes in jars and cans, as well as the introduction of new innovative products on trays into the company's offer. Within the project Stoczek Natura Sp. z o.o. plans to purchase fixed assets and modernise manufacturing facilities.

Security bonds of Makarony Polskie SA for Stoczek Natura Sp. z o.o.

In July 2019 Makarony Polskie SA granted security bonds to its subsidiary Stoczek Natura Sp. z o.o. with regard to the credit liability taken out at Bank Gospodarstwa Krajowego.

The security bonds will serve as collateral for the claims of Bank Gospodarstwa Krajowego against Stoczek Natura Sp. z o.o. resulting from:

- the investment credit agreement amounting to PLN 4.8122 million. The credit is intended for modernization of the production plant in Stoczek Łukowski. The term of the security bond is 76 months and it expires in November 2025.
- the revolving working capital credit agreement with PLN 2.5 million limit. The credit is intended for bridge financing of an EU subsidy. The term of the security bond is 21 months and it expires in April 2021.

Each security bonds applies to the value of the credit plus interest, commissions and any possible additional costs.

Amendments to the security bond of Stoczek Natura Sp. z o.o. for Makarony Polskie SA

In January 2020, Stoczek Natura Sp. z o.o. concluded an annex to the agreement on a security bond with regard to the credit liability repayment taken out by the Parent Company Makarony Polskie SA at Santander Bank Polska SA.

The annex to the agreement on a security bond is a consequence of concluding by Makarony Polskie SA an annex to the investment credit agreement. Pursuant to the annex to the agreement on a security bond, the term of the security bond granted by Stoczek Natura Sp. z o.o. subsidiary was extended. The bank can issue the writ of execution to the debt amount on account of the credit until 30 December 2026 (the previous date was 30 September 2021) and the security bond has been limited to the amount of PLN 15.4 million.
The detailed terms and conditions of the security bond granted are not different from the standard market terms in that regard. The remuneration of Stoczek Natura Sp. z o.o. consists of the commission on account of the security bond granting.

– Note No. 39

Remuneration of members of the Management Board and Supervisory Board

Management Board

Name and Surname	Function	For the period from 01.01 to 31.12.2019		For the period from 01.01 to 31.12.2018	
		constant	variable	constant	variable
Zenon Daniłowski	President of the Management Board	540*	248	528*	287
	Total	**788***		**815***	

* including remuneration for performing the function of the President of the Management Board in the subsidiary MP Trade Sp. z o.o.: PLN 120 thousand in 2019 and PLN 108 thousand in 2018.

Supervisory Board

Name and surname	Function	For the period from 01.01 to 31.12.2019	For the period from 01.01 to 31.12.2018
Roman Sobiecki	Chairman of the Supervisory Board	26	29
Samera Abdelfatah Mohamed El Waziri.-	Deputy Chairman of the Supervisory Board	24	30

Wiesław Wasilewski	Member of the Supervisory Board	21	23
Marek Rocki	Member of the Supervisory Board	21	23
Michał Słomkowski-	Member of the Supervisory Board	21	23
Total		**113**	**128**

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 borrowings to members of the Management Board and Supervisory Board of Makarony Polskie SA.

Note No. 40
Significant event after the balance sheet date in the period from 1 January 2019 to the date of submission of these financial statements

IMPACT OF THE CORONAVIRUS, SARS-COV-2 AND COVID-19 EPIDEMIC ON THE OPERATIONS OF THE MAKARONY POLSKIE GROUP

In connection with the recommendations sent by the Polish Financial Supervision Authority on 12 March 2020, the Company hereby informs that as at the date of submitting these statements for publication the analysis and quantification of the impact that the coronavirus (COVID-19) may have on the future financial situation and financial results of the Makarony Polskie Group has not been completed. Currently, the companies of the Makarony Polskie Group are observing increased market demand for the products offered by the Group, especially pasta products. We make every effort to maintain the high level of our products and services. We are doing larger deliveries in comparison to the same period last year. However, the epidemiological situation is developing dynamically and we may not have an influence on possible delays or production difficulties related to raw material deliveries or staff shortage, as well as price increases resulting from the limited availability of raw materials or market speculation. Taking the above into account, it is difficult to assess the impact of the current situation on the Company's operations and its financial results, especially in long-term. As at

the date of publication of these statements, in the opinion of the Management Board there are no risks for the assumed continuation of business activity.

Post the balance-sheet date no events that could have a significant impact on the financial statements of the Group occurred.

Note No. 41
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 thousand (PLN '000).

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 preserves, vegetable preserves and stuffing, fruit preserves 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 tangible fixed assets 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 tangible fixed assets 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 tangible fixed assets 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:

- property, 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 equipment: 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.

Lands 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 under IFRS-16 leasing – used by virtue of lease agreements for office and warehouse space, as well as acquired right of perpetual usufruct of land depreciated according to the principles applicable to fixed assets, i.e:

- for agreements with a definite term and the right of perpetual usufruct until the date of the agreement or right;
- for agreements with an indefinite term – "to the best knowledge of the Management regarding the expected lease term"
- The Company uses a single discount rate for leasing portfolios with sufficiently similar characteristics.
- Leasing agreements concluded for the period shorter than 12 months are not recognized as leasing.

Depreciation is calculated on a straight-line basis in order to spread their initial value less final value over their useful life.

Fixed assets under construction

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 under construction 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

Costs of external financing 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 period for specific intangible assets are as follows:

- software licenses: from 2 years to 5 years
- property rights: from 2 years to 5 years

The Group 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.

The effects of impairment loss, intangible assets, as well as their depreciation are included in the operating costs.

Impairment of tangible and intangible fixed assets

At each balance sheet date, the companies from the Group reviews the carrying amount of fixed assets. If there are premises indicating the possible impairment of tangible and intangible fixed 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 Company 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 are measured 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:

- 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 agreement, and
- 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,
- borrowings 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:

- 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
- 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 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.

Financial assets at fair value through financial result

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 financial result.

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

Dividends are recognized in the 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 Company

- has a legally enforceable right to compensate the recognized amounts, and
- 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

The Company 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 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 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.

Receivables

As part of receivables, the Company 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.

Borrowings

Borrowings are non-derivative financial assets with fixed or determinable payments that are not quoted on an active market. Borrowings 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. Borrowings include borrowings 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. Borrowings of maturity exceeding 12 months since the balance sheet date are accounted for fixed assets. Borrowings 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.

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.

Financial assets measured at fair value by financial result

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 Company 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 (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 credits 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 borrowing.

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 financial result which 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 Company excludes a financial liability from its balance sheet when the liability expired - that is when the obligation specified in the agreement 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.

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 provisions 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, or lease agreements –IFRS -16 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

The Company 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 agreement with the customer

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

- the parties to the agreement have entered into an agreement (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 agreement 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 agreement, 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 agreement.

Determination of the transaction price

In order to determine the transaction price, the Company takes into account the terms of the agreement 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 agreement with the customer may include fixed amounts, variable amounts or both.

Variable remuneration

If the remuneration specified in the agreement 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 agreements.
- 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 agreement). The most likely value may be an appropriate estimate of the amount of variable remuneration if the agreement has only two possible outcomes (for example, the Company either earns a performance bonus or not).

The Company 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 service

The Company 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 agreements with customers include variable amounts of remuneration in connection with the granting of discounts and rebates.

If the remuneration specified in the agreement 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 agreements 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 agreement was concluded.

The Company decided not to adjust the promised amount of remuneration by the impact of a material element of financing, if at the time of agreement, 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 agreements 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 Company 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 agreements 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 an agreement

The Company recognizes the additional costs of making concluding an agreement with the customer as an asset, if it is expected that it will recover it. The additional costs of concluding an agreement are costs incurred by the entity in order to make conclude an agreement with the customer that the entity would not incur if an agreement was not concluded. Additional

costs of concluding an agreement include, for example, costs of advisory services. The costs of making the agreement concluded incurred regardless of whether the agreement 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 agreement is concluded. The Company recognizes additional costs of concluding an agreement 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 agreement

As part of the assets under the agreement, the Company 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 agreement 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 Company 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 agreement 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 agreement

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 Company 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:

- 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
Goals and principles of managing the financial risk

The current financial situation of the Group, 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.

Risk of market trends changes

The risk may result from the possible changes in consumer purchasing and nutritional habits, e.g. due to growing prices or generally published information, for example regarding the health advantage of a given category of products or the recent experience with COVID-19 pandemic. At the moment, it is difficult to estimate how significantly the consumer behavior will change, but it must be assumed that the pandemic may have an impact on the consumer eating habits in the nearest future and perhaps also in the long term.

Market trends are monitored on a current basis. The Group companies adjust their offer in a fast and flexible manner, both as regards the very products and the technology of the products manufacturing. The current product offer of the Group has been modified in accordance with the market trends, e.g. systematically developed have been health-promoting products, "Fit" products, and ones with lower gluten content, flavored pasta and pasta made of antique grains (e.g. spelt, buckwheat), or products based on vegetable flours or with an addition of

vegetable flour. The portfolio is also systematically expanded with vegetarian products from the line of ready-made dishes on trays and in jars.

Competition risk

All areas of activity of the Makarony Polskie Group fall within strong competition segments. There is a risk that increased activity of the competitors, reflected mainly in commercial conditions deterioration, will affect the profitability and revenues of the Group and, thus, achievement of the objectives assumed by the Group. The activities of the competitors are monitored on a current basis and carefully analyzed. Therefore, the Group is capable of fast reacting to the possible threats.

The Group has been trying to minimize the risk through diversification of its activities, and development of innovative products (e.g. teams have been established to work on R&D projects).

Risk of dependence on the recipients

A major part of revenues is generated by the Group through cooperation with organized commercial networks, which are centralized as regards decision-making. The possible lack of continuity in cooperation with the recipients may affect sales values. Some commercial agreements do not include strictly determined values of planned purchases to be made by the recipient during the term of the agreement. There is a risk that the recipients will file orders which are different in quantity from those assumed by the Group in its monthly plans. This may result in an inability to satisfy the demand or incomplete use of the production capacity, which will obviously translate into the Group results.

The situation of increased demand for the Group's products occurred, among others, in the initial period after the first COVID-19 infections appeared in Poland when the customers went shopping on a mass scale, whereas the orders from retail chains were significantly higher both in relation to the level recorded in the analogous period of the previous year and in the period before the epidemic outbreak.

The Group's production plants faced the necessity of making even greater efforts to use their production capacities in the most optimal way. The difficult situation was alleviated by the recent increase in the Company's production capacities, e.g. a new line for pasta production was installed in the plant in Rzeszów, which provided the Company with an additional safety margin. However, the shortage of raw materials, especially the imported semolina, and the attendance allowance of a part of the personnel introduced by the special act turned out to be a barrier limiting the production volume. Currently, the situation on the market is slowly stabilizing – customers are gradually resigning from doing shopping "in advance", which results in a gradual stabilization of incoming orders.

In the opinion of the Group, the risk is not high, because the Group companies have been systematically implementing solutions for recipients diversification and increase in the number of medium-sized customers.

Risk related to changes in raw materials prices

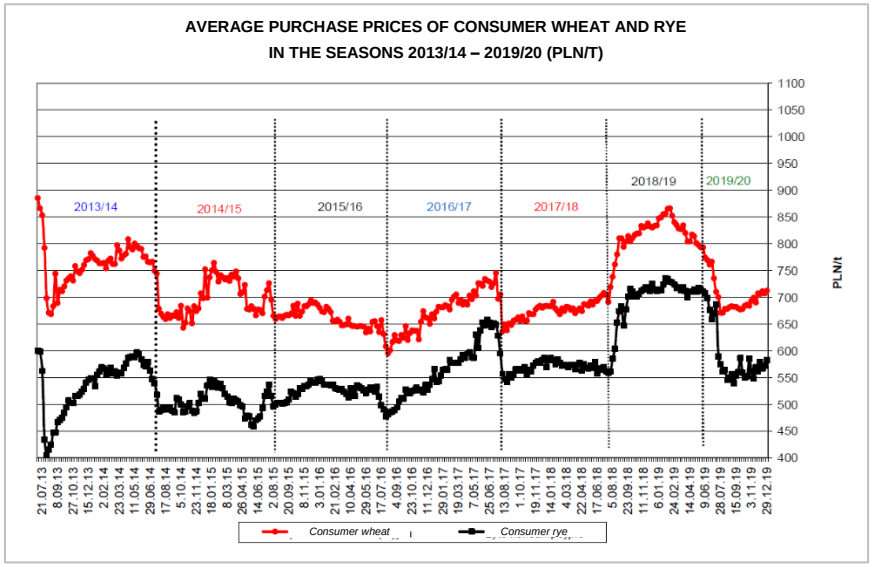
The Makarony Polskie Group has been consequently performing its strategy of raw materials prices securing with long-term purchase contracts in annual and semi-annual periods, which contributes to the avoidance of major profitability reductions of the manufactured pasta. In relation to the current situation on the grain market, the Company has also monitored on a current basis the forecasts regarding both the domestic market and consumer wheat quoting on the world's markets.

In 2019, the situation on the cereals market was variable. Due to unfavorable weather conditions (drought and heavy rains alternately in the wrong moment of cereals growth) which affected the level and quality of the harvest, in Q.1, 2019 the market price level of wheat remained high. A large part of flour producers were not interested in entering into contracts in semi-annual or annual periods. Other 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 (large amount of wheat harvested in Poland, no export, lower wheat prices in neighboring countries), the Makarony Polskie Group decided not to enter into long-term contracts in the first half of 2019, especially given the fact that since the end of Q.1, 2019 there was a slight downward trend in prices observed on the market. Flour purchases in the first half was made on a monthly basis, on the so-called spot. Abundant harvest of 2019/2020 resulted in another slight price drop in August 2019. Taking advantage of this situation, Makarony Polskie SA concluded a few long-term contracts at a favourable price, which allowed for ensuring a constant margin level for long-term sales contracts concluded.

In the first half of Q.1, 2019, flour purchase prices were stable and remained at a level similar to that of Q.4, 2019. The outbreak of coronavirus epidemic in Europe in the second half of Q.1 brought some nervousness to the market. The increased demand for products with long shelf life, such as flour, as well as difficulties in international trade (e.g. reintroduction of border controls and closure of a part of border crossings, extended/uncertain delivery dates) translated into the price increase on the market of cereals and flour. The forecasts indicate that this is rather not a long-term trend but a temporary turmoil caused by the epidemic. However, taking into account that the wheat production is highly sensitive to unpredictable weather conditions, whereas the prices of cereals and flour are highly sensitive to price speculation resulting, among others, from natural disasters, such as the current COVID-19 epidemic, it should be assumed that higher prices and a possible further upward trend in

prices may continue in the perspective of the next harvest, i.e. until Q.3, 2020. The Company is monitoring on a regular basis the current forecasts concerning both the domestic market and consumer wheat price quotations on the world markets, and will carry out further actions, taking into account current trends.

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



Source: Weekly report on the market of grains, oilseeds and fodder materials – Grains Market, Week 01'2020, Sparks Polska

In Q.1, 2019 there was a slight increase in the prices of egg pulp in comparison to the level recorded in Q.4, 2018 (PLN 4.2-4.8 thousand for one ton of egg pulp in Q.1, 2020 compared to PLN 3.8-4.2 thousand in Q.4, 2018), which should be treated as a cyclical phenomenon resulting, among others, from the increased demand for eggs before Easter. In the following months, the prices stabilized at the level of PLN 4.2-5.0 thousand for one ton of egg pulp. As late as at the end of 2019 and beginning of 2020, there was an increase in the prices of egg pulp to the level of PLN 5.00-5.80 thousand for one ton of egg pulp, which was caused by local outbreaks of avian flu in Poland. The current prices on the Polish market are highly diversified and range from PLN 4.50 to 5.50 thousand for one ton of egg pulp. In our opinion, the market of egg pulp should remain stable in the months ahead.

Stoczek Natura Sp. z o.o. is a manufacturer of fruit and vegetable products (including jams and salads) as well as ready-cooked meals. The prices of fruit and vegetables are highly dependent on weather conditions. The Company cooperates with the domestic suppliers of fruit and vegetables as well as an extended base of foreign suppliers of key raw materials, which gives the company better possibilities to obtain cheap raw materials of good quality.

The purchase of fruit and vegetables is carried out seasonally, in the months in which the prices are the lowest. In need the purchased raw materials are stored in the in-house warehouses and cold stores. Stoczek Natura Sp. z o.o. is exposed to the growth of raw materials prices resulting from various abnormal weather conditions. Striving for the risk mitigation the company maintains an extended base of key raw materials suppliers. Additionally, in order to optimize the plant operation Stoczek Natura Sp. z o.o. has planned to outsource production of those categories of fruit and vegetable products whose market share does not guarantee to the company the optimal use of the possessed production capacity and purchase of raw materials at attractive prices. The Company monitors on a regular basis the prices and adjusts the value of its products to price pressure from the raw material suppliers.

Risk of changing legal and tax environment

The Polish legal and tax system is characterized with frequent changes, especially in the current COVID-19 epidemic, when the provisions of law are significantly changed from day to day, the activity of the companies, including the companies of the Makarony Polskie Group is burdened with very high uncertainty. This is a factor unfavorable for business activity which entails a high risk.

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

Risk related to foreign exchange rates fluctuation

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

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

The table below presents the currency structure for the respective classes of financial instruments as at 31 December 2019:

Groups/categories of financial instruments	Carrying amount as at 31.12.2019 PLN `000	Currency exposure as at 31.12.2019 PLN `000	EUR PLN `000	USD PLN `000
Financial assets				
Cash and cash equivalents	718	312	308	4

Receivables from deliveries and services	25,074	1,453	1,453	0
Financial liabilities				
Liabilities from deliveries and services	33,673	7,399	7,399	0

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

Groups/categories of financial instruments	Carrying amount as at 31.12.2018 PLN `000	Currency exposure as at 31.12.2018 PLN `000	EUR PLN `000	USD PLN `000
Financial assets				
Cash and cash equivalents	359	129	73	56
Receivables from deliveries and services	25,599	2,204	2,204	0
Financial liabilities				
Liabilities from deliveries and services	28,611	5,661	5,661	0

The table below presents the analysis of the financial result susceptibility to foreign exchange rates changes as at 31 December 2019:

Groups/categories of financial instruments	EUR		USD	
	5%	-5%	5%	-5%
	Impact on the financial result PLN `000		Impact on the financial result PLN `000	
Financial assets				
Cash and cash equivalents	15.4	-15.4	02	-0.2
Receivables from deliveries and services (gross)	72.6	- 72.6	0	0
Financial liabilities				
Liabilities from deliveries and services	- 369.9	369.9	0	0

The table below presents the analysis of the financial result susceptibility to foreign exchange rates changes as at 31 December 2018:

Groups/categories of financial instruments	EUR		USD	
	5%	-5%	5%	-5%
	Impact on the financial result PLN `000		Impact on the financial result PLN `000	
Financial assets				
Cash and cash equivalents	4	-4	3	-3
Receivables from deliveries and services (gross)	110	-110	0	0
Financial liabilities				
Liabilities from deliveries and services	- 283	283	0	0

Risk related to payroll pressure

Systematic increases in minimum wage and determination of minimum hourly rate for civil-law agreements result in growing payroll pressure among the employees and potential candidates. The phenomenon is intensified by the fact that the labor market is growingly more favorable to the employees. The employers, including the Group companies, may have greater problems in finding adequate candidates to cover vacates among the specialists and managerial staff as well as non-qualified workers.

Striving to minimize staff rotation, particularly among the key staff and specialists, the Group has been systematically implementing incentive remuneration systems (e.g. related to production and sales effectiveness), which by close relationship between the results of work of the particular teams/persons and the effective performance of the Group objectives imposed on the teams/persons allow connecting the level of remuneration satisfactory to the employees with the profitability of the company operations. For the purpose of building motivation and loyalty of the employees towards the employer, the Group companies have systematically diversified the package of in-kind benefits, such as gym cards, group insurance, Christmas vouchers, or private medical care, for the best adjustment of the same to the needs and expectations of the employees.

Interest rate risk

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

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

In 2019 the Group availed of external sources of finance taken out at banks in the form of working capital credits, credits in the current account and investment credits.

As at 31 December 2019 the Group was liable PLN 34,495 thousand on account of credits taken out:

Currency	Interest rate	Credit balance	Including	
			Short-term credits	Long-term credits
PLN	WIBOR + bank margin	34,495	16,500	17,995

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

The structure of financial instruments exposed to the risk of interest rates changes as at 31 December 2019 is presented in the table below:

Groups/categories of financial instruments	Carrying amount as at 31.12.2019 PLN `000	Value at risk as at 31.12.2019 PLN `000	WIBOR PLN `000
Financial assets			
Cash in hand and at bank	718	0	0
Financial liabilities			
Bank credits	34,496	34,496	34,496
Other financial liabilities	1,922	1,922	1,922

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

Groups/categories of financial instruments	Carrying amount as at 31.12.2018 PLN `000	Value at risk as at 31.12.2018 PLN `000	WIBOR PLN `000
Financial assets			
Cash in hand and at bank	359	0	0
Financial liabilities			
Bank credits	24,711	24,711	24,711
Other financial liabilities	2,173	2,173	2,173

The table below presents the analysis of the financial result susceptibility to interest rates changes as at 31 December 2019:

Interest rate	Assumed fluctuation (in percentage points) 31 December 2019		Amount exposed to risk as at 31.12.2019 PLN `000	Impact on the financial result 31 December 2019	
				PLN `000	PLN `000
WIBOR	1%	-1%	36,418	-364.2	364.2

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

Interest rate	Assumed fluctuation (in percentage points)		Amount exposed to risk as at 31.12.2018 PLN '000	Impact on the financial result 31 December 2018	
	31 December 2018			PLN '000	PLN '000
WIBOR	1%	-1%	26,884	-268.8	268.8

Risk of insolvency of contractors

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

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

The Group is not exposed to a major credit risk on account of a single contractor or a group of contractors.

Note No. 43
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 2019, 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 2019, the Group performed planned repayment of interest-bearing liabilities in a timely manner.

Note No. 44
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 2019, 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. 45
Material proceedings pending before a court or an authority competent for arbitration or a public administration authority

In 2019, 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. 46
Employment in the Makarony Polskie Group

Employment as at:	31.12.2019	31.12.2018
Production	160	137
Administration department	22	20
Sales	28	29
In total	210	186

Note No. 47
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 the financial statements for the financial year 2019 in the Makarony Polskie SA Group, amounts to PLN 80.6 thousand (PLN 26.3 thousand for the review of separate and consolidated semi-annal financial statements, PLN 54.3 thousand the audit of the financial statements of Makarony Polskie SA and the Makarony Polskie Group for 2019).

The remuneration payable to BDO Spółka z ograniczoną odpowiedzialnością sp.k. due to the audit of the financial statements for the financial year 2018 in Makarony Polskie SA amounted to PLN 80.6 thousand (PLN 26.3 thousand for the review of separate and consolidated semi-annal financial statements, PLN 54.3 thousand the audit of the financial statements of Makarony Polskie SA and the Makarony Polskie Group for 2018).

.....
Grażyna Kozielec
Chief Accountant

.....
Zenon Daniłowski
President of the Management Board

Rzeszów, 8 April 2020

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