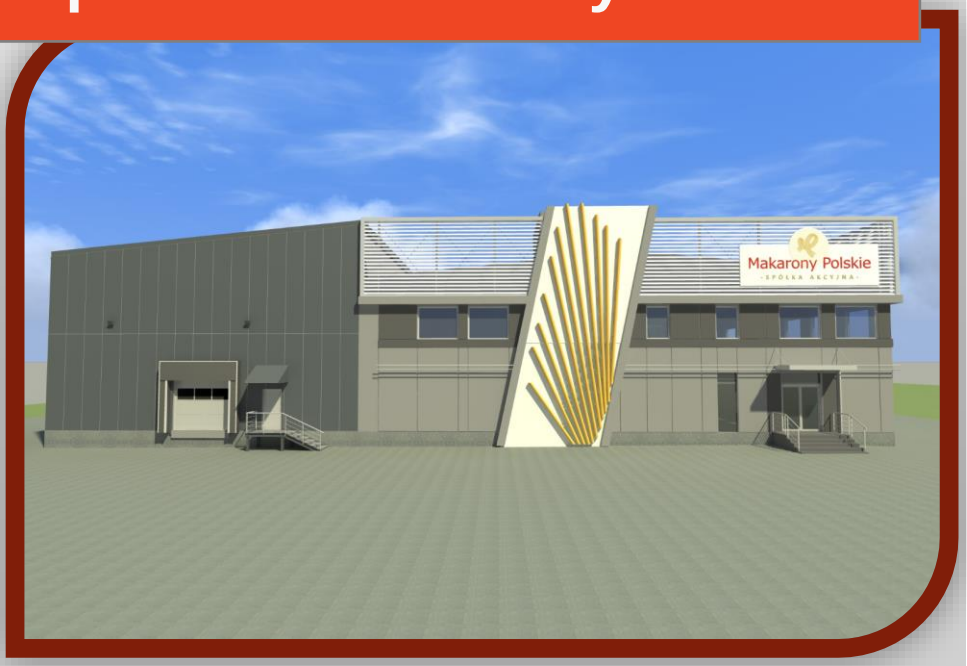
Management Board Report on the operations of Makarony Polskie SA and the Makarony Polskie Group in the financial year 2020



Rzeszów, 15 April 2021

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This "Management Board Report on the Operations of Makarony Polskie S.A. and the Makarony Polskie Group in the financial year 2020" was prepared based on § 71.8 of the Regulation of the Minister of Finance of 29 March 2018 on current and interim information disclosed by the issuers of securities and conditions of considering equivalent the information required by the laws of a country other than a member state.

Last year was successful for our Group, as it generated total consolidated sales at the level of PLN 187.2 million, net profit of approximately PLN 8.0 million, and EBITDA of PLN 19.3 million

Letter of the President of the Management Board



Dear Readers,

Dear Shareholders,

On behalf of Makarony Polskie SA I wish to present you the Report on the Operations and Financial Statements of the Company and the Makarony Polskie Group for the reporting year 2020.

As in previous years, the year 2020, despite numerous difficulties and turmoil resulting from the world pandemic situation, turned out to be a year of a stable organic growth for the Group. The total consolidated sales revenues were at the level of approx. PLN 187.2 million, the net profit was approx. PLN 8.0 million, while EBITDA was at the level of approx. PLN 19.3 million. These amounts are the fruits of engagement and work of our employees who during the pandemic, with commitment, were producing food for the Polish people and for export.

In 2020 the Makarony Polskie Group completed four largest investment processes in its history. Their values and associated investments amounted to approx. PLN 55.0 million. These projects included the extension of the production plant of Makarony Polskie SA in Rzeszów and modernization of the production plant of Stoczek Natura Sp. z o.o. in Stoczek Łukowski.

In the Production Plant in Rzeszów, two additional modern lines for pasta production have been installed. A modern Research and Development Center for the Pasta Industry has been created, where the Company's qualified employees in cooperation with Polish research centers work on innovative pasta products. The outcome of these works is the extension of the Company's existing offer with high-protein, health-promoting, leguminous products, with micro-additives and multi-egg products, produced both in extruded and rolled technology.

In Stoczek Natura Sp. z o.o., which installed a modern production line for ready-made dishes on trays in its production plant, new recipes of sterilized ready-made dishes have been developed and put into production. The new product category includes dishes which fit the convenience food trend, targeted at a wide group of consumers: traditional, vegan and oriental cuisine dishes. These products have been very well received by the market.

Letter of the President of the Management Board

According to the Nielsen company's report, they were third in terms of sales among the competition present on the Polish market for several years. It is a good forecast for the future.

While implementing its business strategy, the Makarony Polskie Group makes every effort to ensure that its development is sustainable and that the projects in progress, in addition to the organic growth, also include the issues connected with corporate social responsibility such as fighting against climate changes and reducing a negative impact on the natural environment. In the Group's production plants, the projects of solar electricity generation have been developed. We hope that within a few years, both in the field of ecoproduction and obtaining raw materials and energy from renewable sources, our Group will complete large investment projects. In the near future, we are planning to start the installation of the photovoltaic panels. One of the basic fields of our activity is also a promotion of vegetable protein consumption as being cheaper to produce than animal protein and having an impact on the reduction of CO_2 emission by limiting the animal stocks, which contributes to the natural environment protection.

A very difficult, "abnormal" 2020 year is behind us. The Sars-Cov-2 and Covid-19 virus pandemic has left its mark on both our private life and on the world economy functioning. There was a break of many developed patterns of movement of resources to production and finished products. Instability sneaked into the well-organized businesses. The enterprises, including the companies of our Group, were forced to face large (reaching up to several dozen percent) fluctuations of levels of sales and activity profitability, which occurred during 2020.

In 2020, the Makarony Polskie Group maintained production continuity, implemented anti-epidemic regulations, organized smooth deliveries of raw materials and materials, produced pasta and ready-made dishes amounting to approx. PLN 187,2 million, with EBITDA profitability at the level of approx. 10%.

The organic development and a constantly growing scale of operations constitute a strong basis for taking new challenges. We are planning that the year 2021 and subsequent years will be the period of further development of our business through innovations and digitization of production processes and logistics. We are also open to possible acquisitions.

The experience from 2020 has strengthened the Makarony Polskie Group, it has given us faith that together we can move forward even in the most difficult times.

Yours faithfully,

Zenon Daniłowski

President of the Management Board

The Makarony Polskie Group consists of three companies: two of them deal with production and one with trading.

Characteristics 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. is a producer of meat and vegetable preserves (ready-made dishes, pies, lard preserves), vegetable preserves (salads, marinades), processed fruit (jams, damson cheese) offered under Stoczek, Tenczynek, Męska Rzecz 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.

Characteristics of the Makarony Polskie Group

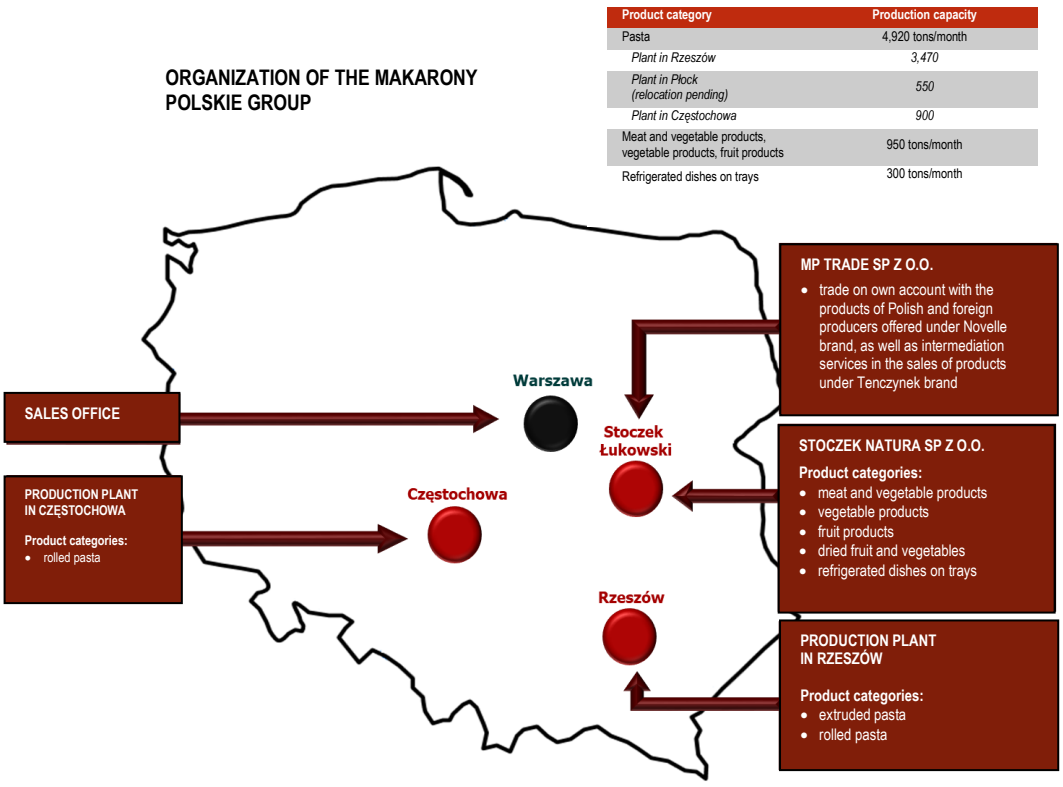
MP Trade Sp. z o.o. develops trade on own account with external goods of Polish and foreign producers. The Company's activity focuses on the sales of products bought from external suppliers under its own Novelle brand and granting the license for Novelle brand to Makarony Polskie SA within the scope 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 2020

In 2020, 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.

Product category	Production capacity
Pasta	4,920 tons/month
Plant in Rzeszów	*3,470*
Plant in Płock (relocation pending)	*550*
Plant in Częstochowa	*900*
Meat and vegetable products, vegetable products, fruit products	950 tons/month
Refrigerated dishes on trays	300 tons/month



Selected market data

Pasta market

The pasta market is quite stable in Poland. However, in the light of 2020, periodic sales fluctuations resulting from the subsequent pandemic waves were clearly visible on that market.

The trends which have the greatest impact on the pasta market are:

- cooking at home – the consumers forced by the current pandemic situation have started to prepare more meals at home and they look for culinary inspiration,
- production localness – a consumer prefers Polish products and carefully checks the production country and the origin of product ingredients,
- health benefits of meals – a consumer looks for additional nutritional values which have a positive impact on health,
- clean label - the focus on applying natural ingredients and providing products without chemical additives,
- fixed budget – the consumers watch their expenses; they often have a fixed budget of expenses on food.

A strong trend on the food market is the fashion for healthy nutrition and a variety of diets, such as gluten-free, low-carbohydrates or vegan ones. It has a direct effect on the product offer – there are numerous BFY (Better-For-You) products based on whole grains, alternative cereals, leguminous plants or gluten-free ingredients and vegetables.

Also important in that category is the focus on the Polish character of the production. According to the consumers' declarations with regard to the product origin, the country of origin of a product and its ingredients is a very important factor affecting the purchase. Local products are popular due to their taste and willingness to support the local producers.

As regards the current market trends, the growing consumers' awareness with regard to avoiding food waste must be mentioned. The "zero waste" trend has been observed not only in packaging diversification by the manufacturers, into standard, family or single serving ones, but also the social trend promoting sustainable purchasing (buy as much as you can eat) and educating the consumers in complete utilization of food products. In 2020, during the increased amount of time spent at home, during the compulsory lock-down, the consumers were learning to manage the purchases even better and minimize the amount of food wasted.

The pandemic forced the consumers to cook on their own much more often than they were used to. It had an impact on the change of the structure of "the shopping basket".

Currently, the consumers are buying more products which they can use for preparing a meal at home. They often declare that they have a fixed budget for food which they do not exceed.

The market of ready-made dishes

The Polish market of ready-made dishes is under development and its expected value until the end of 2020 is to be PLN 2.1 billion. This market is characterized with fast structure changes, both as regards the offered products and the manufacturers competing thereon.

The trends which have the greatest impact on the market of ready-made dishes are:

- the consumers look for natural and healthy meals – the need of healthy diet has been additionally reinforced by the pandemic situation,

- cleanness and transparency – the use of transparent foil to show a meal,

- continuous increase in the care for natural environment, the consumer expects from the manufacturer a sustainable production policy and minimization of the harmful impact on the environment (less plastics, recyclable materials),

- it is trendy to use the inspirations from different regions of the world in the meals.

The health-promoting and natural characteristics has been more and more important in the category of ready-made dishes, perceived as highly processed. The demand for "free of..." food has been increasing along with the higher consumers' awareness and their concerns about allergies and preservatives. Also in that regard the consumers expect "clean labels" (products free of artificial additives, taste enhancers or preservatives, while the manufacturers emphasize the simplicity and health-promoting characteristics of the recipes. In addition to clean label and short list of ingredients, the consumer pays a lot of attention to the food packaging. It is desirable that the products with ready-made food have a transparent foil. The customers want to see a meal before buying it. Furthermore, the packaging of ready-made dishes should be environmentally friendly. It is expected that the manufacturers will pay more attention to the production technologies, use of recyclable materials and reduction of plastics amount.

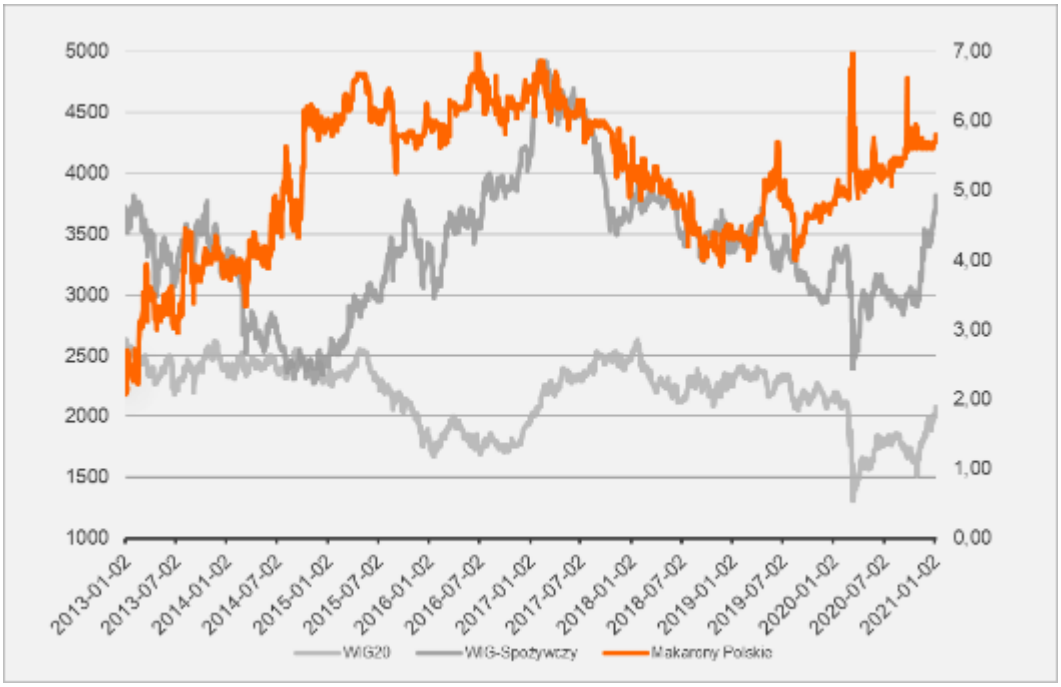
On the European markets a trend consisting in the development of ready-made dishes on trays and in mugs has been observed, at the account of a systematically shrinking number of jarred products. In Poland, the shelf-stable products still enjoy the highest market share, but also here the gradual turn of the consumers towards refrigerated products has been more pronounced. This results, among other things, from a strong convenience tendency (comfort, ease of use). The manufacturers have been searching for new solutions, which will facilitate food heating and consumption for the consumers. The convenience and speed have also been emphasized by the proposed products inspired by take-away meals. The

category has watched the growing popularity of meal kits enabling independent composition of one's own meals, which originates from the compromise between mass ready-cooked meals without any individual traits, and a long time needed to prepare meals from the scratch.

Makarony Polskie SA on the capital market

Listings and major indicators

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



	2013-01-02	2015-01-02	2017-01-02	2019-01-02	2020-01-02	Change from 2013-01-02
Makarony Polskie	2.06	6.03	6.45	4.4	5.7	177%
WIG20	2,626	2,309	1,957	2,302	2,009	-24%
WIG-Spożywczy	3,719	2,452	4,195	3,447	3,716	-0%

Dividend policy at Makarony Polskie SA

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

- pay out dividend in the value of PLN 0.25 gross per share, i.e. to assign PLN 2,313 thousand to the dividend pay-out,
- assign the remaining part of the profit amounting to PLN 3,273 thousand to the supplementary capital of the Company.

In accordance with Article 382.3 of the Code of Commercial Companies, the recommendation was presented by the Management Board to the Supervisory Board and was signed off by the latter.

On 24 September 2020, the Annual General Meeting of Makarony Polskie SA passed a resolution on the approval of financial statements for the reporting year 2019 and net profit distribution, including the payment of dividend amounting PLN 0.25 gross per share, i.e. PLN 2,313 thousand.

The dividend date was set for 1 October 2020. The dividend was paid out on 23 October 2020. 9,250,071 shares of the Company were subject to dividend pay-out.

In the subsequent reporting years, the Management Board of Makarony Polskie SA will also try to recommend to the Annual General Meeting the payment of dividend to shareholders, although the possibility to pay out the dividend may depend on the value of profit generated, the current investment objectives and the standing of the Company.

Application of revenues from the shares issue

In the period from 1 January 2020 to the date of publishing this report, the Company has not carried out any shares issues.

Dialogue with shareholders and investors

The presence on the capital market is treated by the Company as an element of long-term development strategy. The Company has been undertaking actions aimed at building long-lasting and professional relations with all capital market participants, and ensuring equal access to information for all groups of stakeholders.

A major form of the Company communication with its shareholders and investors is the Company's website at www.makarony.pl. In the "Strefa Inwestora" [Investors Zone]

section the Company publishes current information important for the shareholders and investors, e.g. news, events, current financial results.

The Company has provided an e-mail (relacje@makarony.pl), to which all of the interested shareholders, investors and analysts may send questions regarding the broadly understood Investor Relations. The replies and explanations regarding the subjects touched by the stakeholders are provided by the Company in consideration of the ban applicable under the binding legal regulations.

At two weeks before the publication of periodical financial reports the Company does not organize any meetings with investors or does not participate in any such meetings.

The Group portfolio has been constantly adjusted to the market trends and customer needs. It has been lately extended for functional dietetic and health-promoting products.

Operations of the Makarony Polskie Group

Main products and services

Brand products assortment

PASTA

MAKARONY POLSKIE – a brand with clear identity, fitting the popular and stable market trend of promoting Polish-made and local food, dedicated to consumers who care for good Polish quality at a reasonable price.



The brand portfolio covers both the traditional egg-made pasta (rolled, offered as a b-brad with Abak brand) and extruded pasta made of flour from common wheat and hard wheat (durum). The offer includes 7 most popular forms widely used in the kitchen.





The offer also includes functional pasta of dietetic and health-promoting nature (100% spelt, rye or buckwheat flour pasta, or whole-wheat pasta with increased fiber content).

Following the strong food market trend to offer products in single-serving packaging, the Company offers to its customers the products also in 100 g packaging and promotes it with the motto "W sam raz na raz" [Perfect for one meal].

In this weight range the offer also includes pasta from the health-promoting line and wheat pasta in two forms.

Operations of the Makarony Polskie Group

In 2020 the portfolio of the Makarony Polskie brand was extended with pasta made from quail eggs, in two most popular forms, i.e. tagliatelline and ribbons.

In its portfolio, the Makarony Polskie Group has a wide range of rolled egg pasta, manufactured according to the traditional Polish recipes. In the offer there are also ribbons and tagliatelline which are widely used in the kitchen and are often used by the consumers who like experimenting in the kitchen. This pasta is made from durum wheat flour thanks to which it is springy and has a delicate taste at the same time.





The line of egg products is also diversified by popular forms of egg pasta intended mainly for soup: strands and ribbons of the characteristic irregular shape inspired by home-made, cut pasta.

In 2020 the brand portfolio was additionally extended with pasta made from quail eggs. In this line there is pasta available in two most popular forms, i.e. tagliatelline and ribbons.



The offer of the Makarony Polskie brand also includes high-protein pasta with the use of innovative recipe and a mix of alternative flours. This product is an effect of introducing the results of the research and development works as regards functional food, carried out within the framework of the project supported by EU funding (Measure 1.4 Support for SMEs of the Regional Operational Program of the Podkarpackie Province for the years 2014-2020). Carefully selected proportions of whole-wheat flour from durum wheat, flour made from chickpea, lentil and pumpkin seeds make the High-protein Pasta a product with perfect nutritional values. This pasta is a natural source of fiber, it has a high content of protein and is suitable for vegetarians.



The Group's ambition is that the Makarony Polskie brand, together with the sub-brand of Makarony Polskie Abak, become the key to put order in the currently fragmented middle shelf, locating just below the leader and taking over the market share which is now held by a large number of small manufacturers.

The Makarony Polskie Group's offer was extended with ready-made dishes on trays under SoFood brand which are offered to the customers both on the so-called shelf stable (non-refrigerated) and on the refrigerated shelf.



SORENTI - a brand created with a thought about connoisseurs of the Italian cuisine. The brand assortment includes the most popular forms of pasta produced in 100% of the highest-quality milled hard durum wheat. On the domestic market the Sorenti brand is basically present in the modern channel. The advantage of the Sorenti brand in the tight-competition environment is the reasonable price of products. The Sorenti brand is also a very attractive exports product with high development and further internationalization potential.

MEAT AND VEGETABLE PRODUCTS

The brand assortment of meat and vegetable products covers ready-made dishes under the brands of Stoczek and Męska Rzecz and lards under the brand of Stoczek. The ready-made dishes offered by the Group, being classical lunch meals of the Polish cuisine, combine the home taste with the comfort and speed of their preparing. Therefore, they perfectly fit the current trends on the food market.



Męska Rzecz is a brand dedicated to the broadest group of consumers in that food category, seasoned particularly to fit the men's taste, which competes on the shelf with its very reasonable price.

VEGETABLE PRODUCTS

The vegetable products assortment covered mainly salads and pickles under the brand name of Tenczynek – traditional vegetable additions which make meals more attractive and differentiated, both cold and hot. The products have a loyal group of consumers, they also fit into the Group's export policy.

FRUIT PRODUCTS

The fruit products assortment covered plum and other fruit jams under Stoczek and Tenczynek brands while maintaining the highest quality.

DISHES ON TRAYS

In Q.4, 2019 the ready-made dishes on trays were introduced into the Makarony Polskie Group's offer, they are offered under a new brand SoFood. The distribution network of this product category is constantly extended, the company is trying to adjust the brand's portfolio to market trends and constantly changing, very demanding consumer.



The SoFood products are offered to customers both on the so-called shelf-stable (non-refrigerated) and on the refrigerated shelf in two line: Inspired by world cuisines and Fit cuisine. Each of them has been marked with a characteristic color line for easy identification.

The distinguisher for this assortment group are lightweight, two-chamber trays, their ease and speed of heating, and the possibility of storage at room temperature.

According to the report of the Nielsen company, SoFood ready-made dishes on trays were third in terms of sales among the competition present on the Polish market for several years. It is a good forecast for future, therefore, the category of ready-made dishes on trays will be systematically expanded so that the consistency with the market trends and customers' needs are remained.

NOVELLE BRAND

Novelle is a trademark registered in the Polish Patent Office by MP Trade Sp. z o.o.

Novelle is an aspirational brand intended for the consumers willing to culinary experiments, dedicated to the innovative line of products responding to the food trends strongly embedded in the vegetarian cuisine. The Group's ambition is that this brand is setting trends in the category of innovative products, alternative with regard to the products based on traditional recipes.



Currently, under the Novelle brand there are pasta made from leguminous flours and tortellini in different flavors offered.



In the subsequent periods, the Novelle brand offer will be extended with new products based on plant proteins (e.g. pasta from beans). The works on the development of new products will be carried out in close cooperation with Makarony Polskie SA marketing team and New Product Development (NPD) teams operating in the Makarony Polskie Group.

Private label product assortment

The Makarony Polskie Group offers a wide range of products for private labels in each of its product categories. Many commercial networks on both Polish and foreign markets use the Group's offer, mainly in the segment of pasta, but also of meat and vegetable, vegetable and fruit products.

By developing the range of products for the needs of the private labels, the Makarony Polskie Group is focused on the global trends on the food market, especially:

- care for health and well-being (enriching the products with additives having an impact on well-being, energy, vitality and immunological system),
- local origin of the ingredients and manufacturing site (encouraging to buy domestic food, supporting local enterprises and communities),
- stop wasting food (responsible production and sales).

In 2020 the Group carried out development works in the field of:

- vegan/vegetarian products (alternative source of protein),
- health-promoting products, enriched with healthy additives (superfoods),
- products based on ancient cereals (authenticity, origin),
- products with short preparation time, in a convenient packaging (convenience),
- exclusive products – with original shapes, special additives and distinctive packaging (premiumization),
- pasta with the addition of eggs from alternative breeding (animal's well-being, sustainable development),
- more environmentally-friendly packaging (plastics reduction, recycling).

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

Market environment

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

In 2020, the sales amounted to PLN 187.2 million, i.e. 174.6 on the domestic market and PLN 12.6 million in exports. In the corresponding period of 2019 these were PLN 165.6 million, PLN 152.9 million and PLN 12.7 million respectively.

PLN '000	2020	2019	YoY
Sales revenues	187,175	165,587	13.0%

In 2020 only two customers exceeded the threshold of 10% share in the consolidated sales revenues (total for brand and private label products). These are Jeronimo Dystrybucja Polska with approximately 22.9% share and Grupa Lidl with approximately 16.1%. The Group companies are in no way related to the operator of those shop chains, whereas cooperation is carried out on partner basis and is favorable to the Makarony Polskie Group.

Private label

The largest share in the Group revenues (58.3%) 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	2020	2019	YoY
Sales revenues	109,217	94,842	15.2%

In 2020, the dynamics of growth in pasta sales in the private label segment was significantly faster than the market rate of the entire category year-over-year. The consumers' behavior connected with the pandemic was a significant growth factor. Pasta, as a dry category, perfect for storage in stock – has increased during the pandemic. The consumers were buying less often but more – while taking care of the budget at the same time – they were choosing cheaper products, in private labels of the commercial networks.

Other growth factors of the private label segment include the development of assortment in the attractive, growth market areas (healthy, vegetarian, rolled, egg pasta).

Modern trade and traditional trade

Another significant revenue source for the Group equivalent to 17.5% sales on the domestic market is the sales of the Group 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)	2020	2019	YoY
Sales revenues	32,774	27,550	19.0%

The growth of sales of brand products by approximately 19% YoY was caused by the situation connected with the COVID-19 pandemic, which, especially in the first half of the year, increased the sales significantly. A big challenge was to maintain brand sales in the second half of the year and to compete on the market where the price pressure of the commercial networks was high.

In 2021 the Group plans to develop cooperation and attract new domestic and local shop chains which have not yet been serviced. Additionally, the Group plans to improve the service of the current customers and attract new recipients.

B2B and institutions

In 2019 B2B and institutions represented approx. 17.4% of the total revenues of the Group:

B2B and institutions (PLN '000)	2020	2019	YoY
Sales revenues	32,580	30,497	6.8%

Sales in the B2B and institutions channel in 2020 amounted to nearly PLN 32.6 million and were by approx. PLN 2.1 million (i.e. +6.8) higher than in 2019. The increase of sales resulted mainly from the increases sales of pasta products in subcontracting under the institutional contract.

Exports

Within the total revenues of the Group exports represented 6.7%:

Exports (PLN '000)	2020	2019	YoY
Sales revenues	12,604	12,698	-0.7%

The main export market of the Makarony Polskie Group is still Ukraine. However, during the whole year 2020, the export sales were developed both in the European Union markets, and on the markets outside the EU.

The company's export strategy focuses on establishing cooperation with the largest commercial networks – directly and indirectly through the distributors and official importers.

The main export market of the Makarony Polskie Group is still Ukraine where the cooperation with new networks and distributors is systematically developed. However, during the whole year 2020, the export sales were developed both in the European Union countries and on the markets outside the EU. The new products were introduced to both current and new customers in Germany, Latvia, Romania, Czech, Serbia, United States, Sweden, Belarus, Ukraine and Moldova. The Makarony Polskie Group has also gained new trade partners on such markets as: Norway, Belgium, Sweden, Latvia, Lithuania, Estonia and Ukraine.

Major agreements

Agreement with Jeronimo Martins Polska SA

Based on the agreement signed by and between Makarony Polskie SA and Jeronimo Martins Polska SA, pasta is sold to the Biedronka chain under the chain's private labels: Pastani, Dobrusia and Makaron Szlacheck.

Agreements with the Lidl chain

Based on the agreements concluded by and between Makarony Polskie SA and the Lidl chain, the chain shops offer a variety of products manufactured by the Company.

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

In the period from April 2017 to December 2020 the Company was 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 was 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 purchased fixed assets and construction works. For the purposes of the R&D Centre a modern line for production tests was purchased, among other things, the parameters of which will reflect the conditions of the actual industrial production process.

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

The provisions of the agreement were 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 and Bank Gospodarstwa Krajowego

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 and Bank Gospodarstwa Krajowego, which were described in detail under "Other financial information".

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). The security bond was 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.

- In connection with concluding by Makarony Polskie SA an annex to the agreement on credit in the current account with Bank Gospodarstwa Krajowego, Stoczek Natura Sp. z o.o.

Factors important for the Group's development are:

- *building a competitive advantage through investments in R&D, product, process and organizational innovations*
- *acquiring funds from the European Union for the implementation of activities and investments planned by the Group*
- *activity development in the private label segment*
- *development of B2B sales channels and Institutions*
- *increase in shares and increase of the distribution level on the domestic market*
- *exports development*

concluded with this bank the agreement on a security bond with regard to the repayment of the credit liability of the parent company.

The security bond of the agreement on credit in the current account is valid until 30 December 2021. 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.

Factors important for the Group's development

Factors affecting the future results of the Company and the Group

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

- investments in new production lines and research and development center will allow the Group to extend the product range and be present in new market segments, both in the country and abroad,
- 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 products: functional food, health-promoting food, low-processed food, food that is easy to prepare,
- Stoczek Natura Sp. z o.o. purchased a new technological line, with the help of external experts and technologists it developed and introduced SoFood ready-made dishes on trays to the offer.

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

- 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 purchased fixed assets and construction works, as part of the project. For the needs of the B&R Center, the purchase included 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 "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.

Activity development in the private label segment

- diversification of the product portfolio is a promise of higher efficiency of the activity conducted in the private label channel, in 2020 the products from a new rolled line was introduced to regular sale, in the subsequent period the Group plans further implementations both with regard to pasta (health-promoting products, e.g. gluten-free and high-protein pasta, pasta suitable for vegans), as well as the products of Stoczek Natura Sp. z o.o.,
- 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,

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 and SoFood brands, new definition of Stoczek Natura, Sorenti and Novelle brands, the Group prepared 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.

Exports development

- focusing on European markets, including in particular Ukraine, where the Group systematically develops its cooperation with networks and distributors,

- systematic increase in the number of customers on foreign markets, especially in the European Union in the category of dishes on trays,
- 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 and in the product categories, such as ready-made dishes on trays (especially the vegetarian dishes which are in high demand on the market),
- partnership with other entities which have an offer complementary to the Group's offer in order to increase sales opportunities and make the offer more attractive.

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.

Risks and threats important for the Group development

The current financial standing of the Group, its production potential and market position provide opportunities for further development. There are, however, many factors, specifically external ones, which may directly or indirectly impact the financial results generated in the coming years.

Risk of market trends changes

The risk may result from the possible changes in consumer purchasing and nutritional habits, e.g. caused by the coronavirus pandemic, due to growing prices or generally published information, for example regarding the health advantage of a given category of products.

Market trends are monitored on a current basis. The Group companies adjust their offer in a fast and flexible manner, both as regards the very products and the technology of the products manufacturing. The current product offer of the Group has been modified in accordance with the market trends, e.g. systematically developed have been health-promoting products, "Fit" products, products for vegans and vegetarians, 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 flours. We develop the line of products with "clean label". In the first half of the year, pasta from quail eggs and ready-made dishes on trays offered for the shelf stable appeared in the Group's offer.

Competition risk

All areas of activity of the Makarony Polskie Group fall within strong competition segments. There is a risk that increased activity of the competitors, reflected mainly in commercial conditions deterioration, will affect the profitability and revenues of the Group and, thus, achievement of the objectives assumed by the Group. The activities of the competitors are monitored on a current basis and 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 (there are teams operating whose aim is to work on R&D projects).

Risk of dependence on the recipients

A majority 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.

After the first wave of market panic caused by obligatory lock-down and related uncertainty as regards further course of the epidemic, the situation on the market stabilized. The customers resigned from doing shopping "in advance", which translated into a stabilization of incoming orders in summer. In autumn, in connection with the so-called "second wave of the epidemic", another increase of orders occurred, however, in accordance with the Company's previous estimates, it was not as dynamic as the one observed at the end of Q.1, 2020.

In the opinion of the Group, the risk is not high, because the Group companies have been systematically implementing solutions for recipient 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.

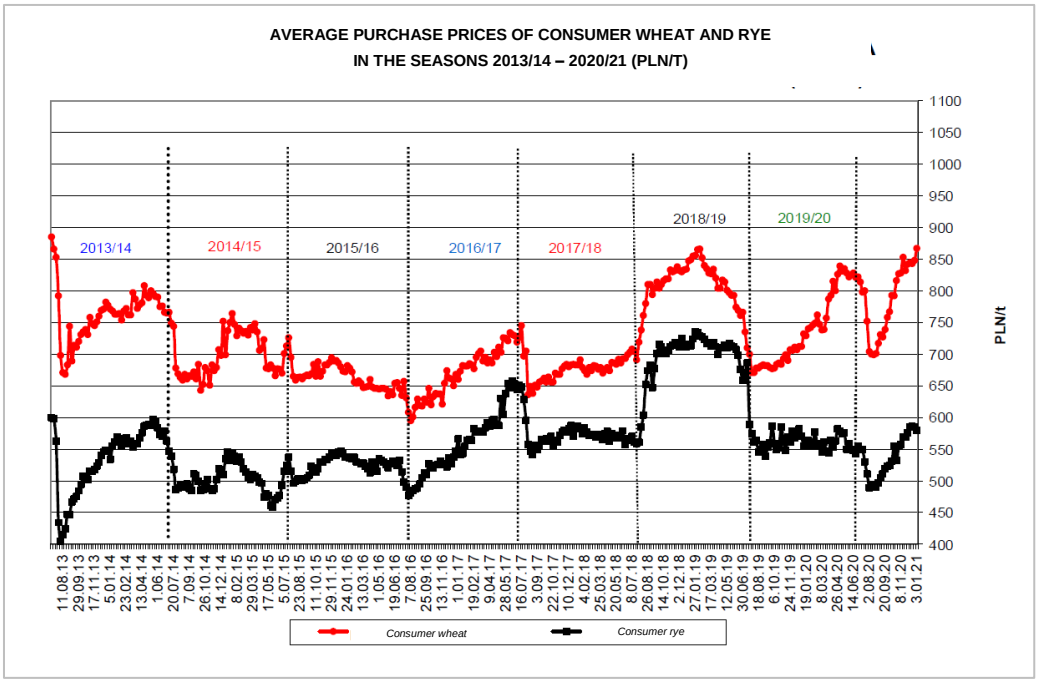
In the first quarter of 2020, flour purchase prices were stable, they remained at an average level, similar to that of the fourth quarter of 2019. The outbreak of the Sars-Cov-2 coronavirus epidemic in Europe in the second half of the first quarter brought nervousness on the market. An increased demand for products with long shelf-life, such as flour, as well as obstacles to international trade (e.g. reintroduction of border controls and closure of a part of border crossings, extended/uncertain supply dates) translated into an increase of prices on the market of cereals and flour, which remained until the harvest, i.e. until Q.3, 2020. In August 2020, following the information coming from the European and non-European cereal markets about very good, in terms of quantity, forecasts relating to the harvest, a decrease of prices of soft wheat and flour was visible. However, it was as early as in the first decade of September when another increase of wheat prices occurred, which was caused by significant interest of exporters in the Polish wheat. According to the forecasts, an upward price tendency on the wheat market will remain at least until the second half of Q.2, 2021 in connection with large export of Polish wheat, as well as an increased market demand for products with long shelf-life (including flour and flour products) due to the subsequent waves of the Covid-19 epidemic.

In H.2, 2020 an upward tendency of prices remained also on the market of durum wheat flour, which was connected mainly with poor harvest in 2020/2021 harvest season.

Makarony Polskie SA is aware that wheat production is highly sensitive to unpredictable weather conditions, therefore, prices are vulnerable to increases caused by possible speculations or natural disasters. At the turn of Q.3 and Q.4, 2020, the Company concluded a few long-term contracts for the delivery of both soft flour and durum wheat flour. These contracts do not fully secure the company's demand. However, they allow to reduce a negative impact of the growth of raw material prices on the effectiveness of the operational activity conducted in the subsequent periods. The Company is closely monitoring current forecasts relating to both domestic market and prices of the consumer wheat prices on the global

markets, and it will carry out further activities aimed at securing the purchase prices of raw materials for the sales contracts concluded, taking into account the current tendencies.

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 01'2021, Sparks Polska

At the end of Q.4, 2019, the price of egg pulp amounted to PLN 3.8-4.5 thousand for one ton of egg pulp. In Q.1, 2020, there was a slight increase in prices, which resulted, among others, from the increased demand for eggs before Easter and local occurrence of bird flu. The prices of egg pulp on the market amounted to PLN 4.2-5.0 thousand for one ton of egg pulp. In subsequent months, the prices stabilized at the level of PLN 4.5-6.0 thousand for one ton of egg pulp. It was caused by the coronavirus outbreak. The prices remained at this level until the end of H.1, 2020. In Q.3 and Q.4, 2020, the market stabilized, however, the price range was still wide and was at the level of PLN 3.7-4.6 thousand for one ton of egg pulp.

In Q.1, 2021, the prices of eggs and egg pulp significantly increased (even to the level of PLN 6.0-7.0 thousand for one ton) due to signals about major epidemic of bird flu and significant decrease of egg-laying by young hens. However, according to the Company's estimates, on a yearly basis these growths should not have a significant impact on the product profitability. In the subsequent months of 2021, especially after Easter, the prices should stabilize and return to the level similar to Q.4, 2020.

Stoczek Natura Sp. z o.o. is a manufacturer of fruit and vegetable products (including jams) 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.

One of the key raw materials is meat. In 2020 meat market was stable. Additionally, Covid-19 limitations connected with the functioning of the catering industry decreased the demand for this raw material. With the exception of the first quarter, the remaining months of 2020 were characterized by price stabilization with a downward trend. The Company has been monitoring the European market in terms of meat for years, which allows to forecast the dynamics of changes efficiently. Possession of its own warehouses and cold stores gives an opportunity to react earlier to the changing market environment in this regard. In case of seasonal price growths, there is a possibility of strategic purchase and storage of meat raw materials.

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 2020:

Groups/categories of financial instruments	Carrying amount as at 31.12.2020 PLN `000	Currency exposure as at 31.12.2020 PLN `000	EUR PLN `000	USD PLN `000

Financial assets				
Cash and cash equivalents	410	57	20	37
Receivables from deliveries and services	18,835	1,489	1,489	
Financial liabilities				
Liabilities from deliveries and services	29,029	3,697	3,697	

The table below presents the analysis of the financial result susceptibility to foreign exchange rates changes as at 31 December 2020:

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	1.0	-1.0	1,9	-1,9
Receivables from deliveries and services (gross)	74.4	-74.4	-	-
Financial liabilities				
Liabilities from deliveries and services	- 184.8	184.8	-	-

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 2020 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 2020 the Group was liable PLN 27,017 thousand on account of credits taken out:

Currency	Interest rate	Credit balance	Including	
			Short-term credits	Long-term credits
PLN	WIBOR + bank margin	27,017	15,503	11,514

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 2020 is presented in the table below:

Groups/categories of financial instruments	Carrying amount as at 31.12.2020 PLN `000	Value at risk as at 31.12.2020 PLN `000	WIBOR PLN `000
Financial assets			
Cash in hand and at bank	410	-	-
Financial liabilities			
Bank credits	27,017	27,017	27,017
Other financial liabilities	2,142	2,142	2,142

The table below presents the analysis of the financial result susceptibility to interest rates changes as at 31 December 2020:

Interest rate	Assumed fluctuation (in percentage points) 31 December 2020		Amount exposed to risk as at 31.12.2020 PLN `000	Impact on the financial result 31 December 2020 PLN `000	
WIBOR	1%	-1%	29,159	-291.6	291.6

Insolvency risk

The insolvency risk means the risk of insolvency of the Group's contractors with regard to their obligations. 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 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.

The impact of the SARS-COV-2 and COVID-19 coronavirus epidemic on the activities of Makarony Polskie SA

The impact of the Covid-19 pandemic which started at the end of Q.1, 2020 on the activities and financial results of the Makarony Polskie Group is visible in several areas:

- The Group recorded an increase in the prices of key raw materials – flour, meat and egg pulp – in connection with an increased demand and turmoil in the supply chain (e.g. obstacles to international trade by reintroduction of border controls and closure of a part of border crossings).
- The pressure coming from the business environment, among others, state authorities to maintain the stable prices, as well as the reluctance of the key customers to introduce increases as part of the contracts concluded, had an impact on the delay in implementing new sales prices allowing the Group for partial compensation for increased cost factors. The above-mentioned issued had an impact on reducing the profitability at the level of gross sales profit from 22.7% in 2019 to 20.2% in 2020.
- In connection with the decrease in the revenues in Q.2, 2020 compared to Q.1, 2019 (by PLN 14.0 million), the Group companies decided to avail of public assistance within the Anti-Crisis Shield which aims at maintaining the level of employment in subsequent periods. As at the balance sheet date, the assistance includes: subsidy from the Polish Development Fund in the amount of PLN 1.5 million and subsidy for the working capital from PARP (Polish Agency for Enterprise Development) in the amount of PLN 0.4 million received by Makarony Polskie SA, remission of social insurance contributions in the amount of PLN 0.15 million, subsidy from the Polish Development Fund in the amount of PLN 1.5 million and subsidy for the working capital from PARP in the amount of approx. PLN 0.1 million at Stoczek Natura Sp. z o.o.

Immediately after information about the Covid-19 epidemic getting closer to Poland had appeared, before an official announcement of the state of epidemic in Poland, the Group implemented additional safety procedures and protective measures which are supposed to ensure the production continuity and reduce the risk of virus spreading among the staff. These procedures are subject to systematic validation and modified depending on the needs and development of the epidemiologic situation.

In the opinion of the Management Board, there are no risks in the Group that would prevent it from paying the liabilities incurred. The Group does not have any problems with repayment of receivables by its contractors (no changes in terms of collecting the receivables have been identified). The Group has not identified an increase in risks in terms of valuation and growing stock inventories. As at the date of publication of the statements, the Company does not

identify any material risk of failure to meet the financial covenants in credit agreements in connection with the COVID-19 pandemic.

The Management Board of Makarony Polskie SA closely monitors the situation connected with the COVID-19 pandemic and undertakes actions aimed at minimizing a negative impact on the functioning of the Company and the Group in terms of safety, financial liquidity and results achieved. In the opinion of the Management Board, a current financial situation of the Company and the Group does not pose a threat to the activities of the Group in subsequent periods.

Financial position of the Makarony Polskie Group

The consolidated financial statements were prepared based on IFRS, in accordance with the going concern assumption with regard to the Group companies in foreseeable future and in reference to the scope of activities which is not going to change significantly. The Group did not carry out any activities which would have been abandoned in 2020.

The financial statements of all companies were prepared for the same reporting period, by application of cohesive financial principles. The reporting year of the Group is a calendar year (except that the first reporting year for MP Trade Sp. z o.o. lasted from September 2015 to 31 December 2016).

Companies subject to consolidation:

as at 31 December 2020	**Stoczek Natura Sp. z o.o.**	**MP Trade Sp. z o.o.**
Nature of relationship	direct subsidiary	direct subsidiary
Consolidation method	full	full
Control assumption date	1 June 2007	28 September 2015
% of share capital held	100%	100%

Results discussion

The selected financial data of the Makarony Polskie Group as at 31 December 2020, expressed in PLN thousands, are as follows:

(PLN '000)	**01.01.2020-31.12.2020**	**01.01.2019-31.12.2019**
Net sales	**187,175**	**165,588**
Net sales of products and services	178,066	158,714
Net sales of merchandise and materials	9,109	6,874
Prime cost	**149,340**	**128,077**
Cost of manufacturing of products and services sold	141,316	122,179
Value of merchandise and materials sold	8,024	5,898
Gross profit (loss) on sales	**37,835**	**37,511**
Costs of sales	21,657	21,303

General management costs	6,413	7,104
Other revenues	2,961	1,371
Other costs	1,542	3,564
Profit (loss) on continued operations	**11,184**	**6,911**
Financial revenues	17	26
Financial costs	1,593	1,407
Gross profit	**9,608**	**5,530**
Income tax – current part	2,414	1,775
Income tax – deferred part	-334	-48
Net profit (loss) on continued operations	**7,528**	**3,803**
EBITDA (EBIT + depreciation)	**18,836**	**13,536**

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

** Book value per ordinary share = equity/number of shares at the balance-sheet date

The consolidated revenues in 2020 amounted to PLN 187,2 million and were higher by approx. 13.0% (+PLN 21.6 million) compared to 2019.

The Group recorded the largest sales growth in the segment of pasta – growth by approx. PLN 17.1 million (+14.5% YoY) which was a result of sales growth under the brands of commercial networks, Makarony Polskie brand development on the domestic market and performance of the subcontracting agreement under the institutional contract at the higher level compared to the corresponding period of the previous year, and in the segment of vegetable and meat products a growth by approx. PLN 2.9 million YoY (+10.8% YoY) as a result of, among others, good reception by the customers of a new line of dishes on trays under the SoFood brand.

The costs of products, services, merchandise and materials sold in 2020 amounted to approx. PLN 149.3 million (increase by about 16.6%).

The Makarony Polskie Group closed 2020 year with gross sales profit at the level of approx. PLN 37.8 million (growth by approx. PLN 0.3 million compared to 2019), with gross sales profitability at the level of approx. 20.2% (versus approx. 22.7% in 2019).

The result on operating activities (EBIT) in 2020 was approx. PLN 11.2 million, compared to approx. PLN 6.9 million in 2019, i.e. 61.8% growth. Profitability at EBIT level amounted to 6.0% (compared to 4.2% in 2019).

Net profit in 2020 amounted to approx. PLN 7.5 million and was higher than the profit in 2019 by approx. PLN 3.7 million (+34.5%). Sales profitability calculated at the net profit was 4.0% (compared to 2.3% in 2019).

In 2020, the Group recorded EBITDA at the level of approx. PLN 18.8 million compared to approx. PLN 13.5 million in 2019, which gives an increase by PLN 5.3 million YoY, i.e. 39.2%. EBITDA profitability in 2020 was 10.12% compared to 8.2% in 2019.

Consolidated statement of other comprehensive income, net – hedge accounting

FOR THE PERIOD	01.01.2020-31.12.2020	01.01.2019-31.12.2019
Net comprehensive income	7,992	3,803
Profit/loss on account of hedge accounting application	0	0
Total net comprehensive income	7,992	3,803

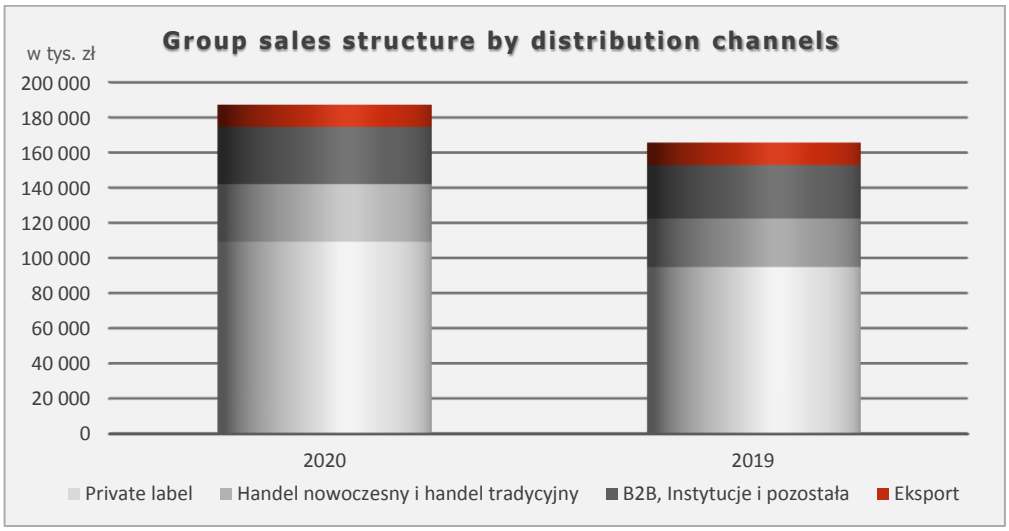
Generated results vs projection

The Makarony Polskie Group has not published any financial projections for the reporting year 2020.

Operating segments

Sales structure by distribution channels at the Makarony Polskie Group

The sales structure of products and merchandise broken down into distribution channels is presented in the chart below:



Sales revenues by operating segments

(PLN '000)	01.01- 31.12.2020	01.01- 31.12.2019
Pasta	135,343	118,194
Meat and vegetable products	29,672	26,775
Vegetable products and stuffing	1,590	1,969
Fruit products	8,821	8,632
Other	11,749	10,017
Total	**187,175**	**165,587**

Sales revenues of the Makarony Polskie Group in 2020 amounted to approx. PLN 187.2 million and were by approx. PLN 21.6 million higher than in 2019.

The value of sales in the category of pasta grew by approx. PLN 17.1 million to approx. PLN 135.3 million in 2020. The growth of about 15% was a result of sales growth under the brands of commercial networks, Makarony Polskie brand development on the domestic market and performance of the subcontracting agreement under the institutional contract at the higher level compared to the corresponding period of the previous year.

Factors and events affecting 2020results:

- *extension of the pasta product portfolio*
- *export sales development*
- *change of the profile of operation of Stoczek Natura Sp. z o.o.*

Another segment in which positive dynamics of changes has been recorded is the segment of meat and vegetable preserves. The sales of meat and vegetable preserves increased in the analyzed period by approx. PLN 2.9 million to the amount of approx. PLN 29.7 million. The growth by approx. 11% (2020 versus 2019) was a result of sales growth under private labels and commercial network brands. In the analyzed period the Group introduced on the market a new line of dishes on trays under the SoFood brand which was appreciated by the customers.

The sales of fruit products in the analyzed period were nearly PLN 8.8 million and were by approx. PLN 0.2 million, i.e. 2% higher compared to 2019, which was caused by the sales growth in the category of jams and plum jams.

The segment of vegetable preserves and stuffing recorded a sales decrease in the analyzed period by approx. PLN 0.4 million to nearly PLN 1.6 million. The drop resulted from the decrease of orders in the segment of stuffing and products under the Tenczynek brand.

Factors and events, including atypical ones, affecting 2020 results

Extension of pasta product portfolio

The pasta market in Poland is quite stable. For many years it has been characterized by a stable growth at the level of approx. 2% YoY. However, in the light of 2020 alone, it was clearly marked by temporary sales fluctuations resulting from the subsequent pandemic waves.

The key trends affecting the pasta market include: growing popularity of health-promoting pasta (health & wellness pasta), higher demand for local tastes and varieties, focus on the use of natural additives.

Replying to the market trends, in 2020 the Makarony Polskie Group continued the strategy of portfolio optimization and its supplementation for high-margin products of the premium segment. Work is pending on new health-promoting products (e.g. gluten-free, high-protein pasta), pasta suitable for vegan and vegetarians (with V-label license), premium products (e.g. new shapes and forms of pasta, innovative packaging).

Export sales development

The Group's export sales in 2020 exceeded PLN 12.6 million (performed with its own sales team and intermediaries). It was a result slighly lower than the result reached in 2019 by approx. 1.36%. It was partially caused by the pandemic which introduced difficulties and caused numerous bottlenecks in the international distribution. On the other hand, pandemic waves caused temporary cumulation of the demand for the Group's products which made smooth and full processing of the orders from the customers difficult.

The main export market is still Ukraine, while the Makarony Polskie Group consistently follows a long-term strategy of acquiring new markets both in and outside the European Union. To achieve the above objectives, the Group systematically acquires partners on foreign local markets who support the Group in the further development of sales on those markets.

Change of business profile in Stoczek Natura Sp. z o.o.

Also Stoczek Natura Sp. z o.o. systematically introduces new products to its offer. The new products have been appreciated by the market. According to the report of the Nielsen company, SoFood ready-made dishes on trays were third in terms of sales among the competition present on the Polish market for several years. It is a good forecast for future, therefore, the category of ready-made dishes on trays will be systematically expanded so that the consistency with the market trends and customers' needs are remained.

In 2020 Stoczek Natura Sp. z o.o. enriched its portfolio and started to offer the products in a new, dynamically developing category of ready-made dishes on trays and in mugs under the SoFood brand. The dishes respond to a strong market trend, convenience. They are ready for consumption; they can be heated up in a microwave or in a traditional manner.

SoFood products were positively received by the customers. According to the report of the Nielsen company, SoFood ready-made dishes on trays were third in terms of sales among the competition present on the Polish market for several years. The company's revenues in this segment is 2020 amount to over PLN 2.0 million.

This category opens up new possibilities of sales development for the Company, especially on the export markets. Currently, the Company's offer includes 9 products from this category. In the second quarter of 2021 a further development of this category is planned based on new dishes and new packaging forms.

Structure of assets and equity/liabilities

The balance-sheet total of the Group as at 31 December 2020 amounted to PLN 180.5 million, compared to PLN 173.6 million as at 31 December 2019.

Structure of the Group assets and equity/liabilities

(PLN '000)	31 December 2020	31 December 2019
FIXED ASSETS	**133,058**	**126,942**
Tangible fixed assets	117,017	108,814
Fixed assets – IFRS-16	2,524	4,091
Investment properties	603	603
Goodwill	5,949	5,949
Other intangible assets	6,919	7,363
Other long-term financial assets	0	0
Deferred income tax assets	1	2
Other long-term assets	45	120
CURRENT ASSETS	**47,479**	**46,685**
Inventories	24,127	20,515
Short-term receivables	22,636	25,074
Income tax receivables	0	17
Loans granted	0	0
Cash and cash equivalents	410	718
Other short-term assets	306	361
FIXED ASSETS HELD FOR SALE	**0**	**0**
TOTAL ASSETS	**180,537**	**173,627**

(PLN '000)	31 December 2020	31 December 2019
EQUITY CAPITAL	**85,203**	**79,988**
Share capital	27,750	27,750
Supplementary capital	38,490	37,155
Reserve capital	12,000	12,000
Retained profit/loss (profit/loss from previous years)	-565	-720
Net profit/loss	7,528	3,803

LONG-TERM LIABILITIES	**42,439**	**39,351**
Deferred income tax provision	3,187	3,522
Long-term bank credits and loans	11,514	17,995
Long-term financial liabilities – subsidy of the Polish Development Fund (PFR)	2,269	0
Provision for retirement benefits and equivalent (long-term)	398	357
Deferred income- long-term	21,730	13,042
Long-term financial liabilities- leasing	1,297	1,160
Long-term financial liabilities- IFRS -16	2,044	3,275
SHORT-TERM LIABILITIES	**52,895**	**54,288**
Short-term bank credits and loans	15,379	16,500
Short-term financial liabilities – subsidy of the Polish Development Fund (PFR)	675	0
Short-term financial liabilities - leasing	845	762
Short-term financial liabilities – working capital subsidy	124	
Short-term financial liabilities - IFRS-16	555	884
Other short-term liabilities	31,165	33,673
Income tax liabilities	1,153	426
Deferred income- short-term	1,433	975
Provision for retirement benefits and equivalent (short-term)	1,506	1,055
Other short-term provisions	60	13
TOTAL LIABILITIES	**95,334**	**93,639**
TOTAL EQUITY/LIABILITIES	**180,537**	**173,627**

As at 31 December 2020, fixed assets were worth approx. PLN 133.1 million (73.7% of total assets) compared to approx. PLN 126.9 million at the end of 2019 (growth by approx. 4.8% versus the end of 2019). The increase in the value of fixed assets resulted from the investments carried out in the production plants of the Makarony Polskie Group.

As at 31 December 2020, current assets were approx. PLN 47.5 million and increased by approx. 1.7% compared to the end of 2019 (approx. PLN 46.7 million). The increase in inventories by approx. PLN 3.6 million, i.e. by approx. 17.6% accompanied by a drop in receivables by approx. PLN 2.4 million (i.e. - 9.7% YoY) and cash by approx. PLN 0.3 million (i.e. -42.9%).

Equity as at the balance-sheet date amounted to approx. PLN 85.2 million, constituting approx. 47% of the value of equity and liabilities and it increased by 6.5% in comparison to approx. PLN 80.0 million at the end of 2019. The change was caused by the achieved profit

for 2020 in the amount of approx. PLN 7.5 million and the allocation of part of the net profit for 2019 to dividend in the amount of PLN 2.3 million.

Long-term liabilities amounted to approx. PLN 42.4 million and increased by approx. 7.8% (from approx. PLN 39.4 million) in comparison to the end of 2019, mainly due to a growth of deferred income as a result of subsidies received after settling the projects covered by the EU support (approx. +PLN 8.7 million) and receipt of subsidies (approx. +PLN 2.3 million) with the repayment of part of the long-term credits in accordance with the applicable schedules (reclassification of part of long-term credits to short-term liabilities in connection with the maturity of instalments in the period below one year from the balance-sheet date) and as a result of subsidies received (approx. -PLN 6.8 million) and a decrease in liabilities resulting from the application of IFRS-16 (approx. -PLN 1.2 million).

As at 31 December 2020, short-term liabilities amounted to approx. PLN 52.9 million and decreased in comparison to the end of 2019, i.e. the amount of approx. PLN 54.3 million. The biggest changes in short-term liabilities are: a decrease in other liabilities (a decrease by approx. PLN 2.5 million, i.e. approx. 7.4%) accompanied by a growth of income tax liabilities (+PLN 0.7 million), provisions for retirement benefits and equivalent (+PLN 0.5 million) and deferred income (+PLN 0.5 million).

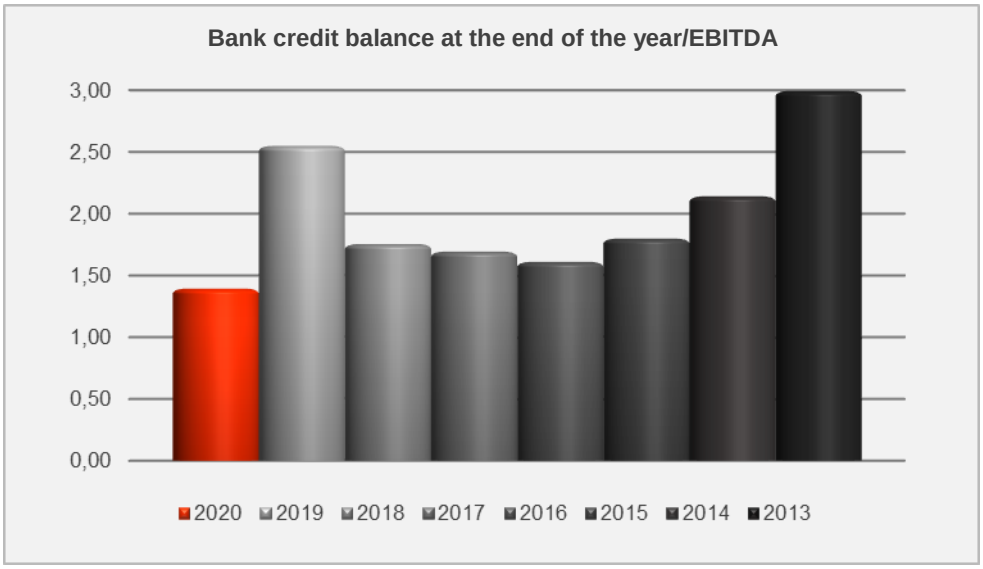
Solvency and management of the Group financial assets and financial risk

The Makarony Polskie Group manages its economic assets such as to ensure financing of current activities and the projects carried out with its own funds, bank credits, factoring and lease.

Its full capacity to pay liabilities in 2019 was confirmed by:

- generation of positive cash flows on operating activities of more than PLN 12.1 million in 2020,
- generation of EBITDA at the level of approx. PLN 18.8 million in 2020,
- carrying out some of the purchases without availing of trade credit by the Group, which results in a financial advantage,
- performance of investment projects and dividend payment in 2020 amounting to approx. PLN 2.3 million (PLN 2.3 million in 2019),
- at the end of 2020 the balance of bank credits to EBITDA ratio maintained at a very safe level:

The ratio analysis reflects good financial standing of the Makarony Polskie Group in 2020 as regards profitability, capacity to pay liabilities as well as security of financing current and investment activities.



In the opinion of the Management Board there are no threats to prevent the repayment of the liabilities incurred.

Deposits and capital investments

In 2020 the Makarony Polskie Group did not make any capital investments.

Ratio analysis

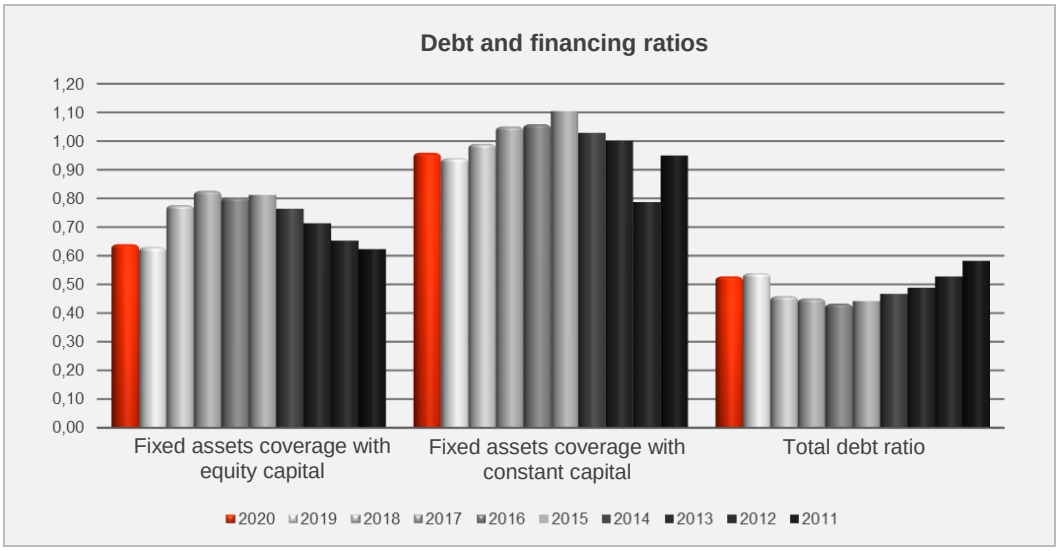
The return, liquidity and debt ratios analysis reflects good financial standing of the Makarony Polskie Group in 2020 compared to the previous periods as regards profitability, capacity to pay liabilities as well as security of financing current and investment activities.

The level of return and cash flows generated by the Group enabled it to pay out dividend to shareholders in 2020 in the amount of PLN 2.3 million, carry out many investments, purchase some raw materials at attractive prices without trade credit and maintain safe debt level, among other things.

Debt and financing ratios

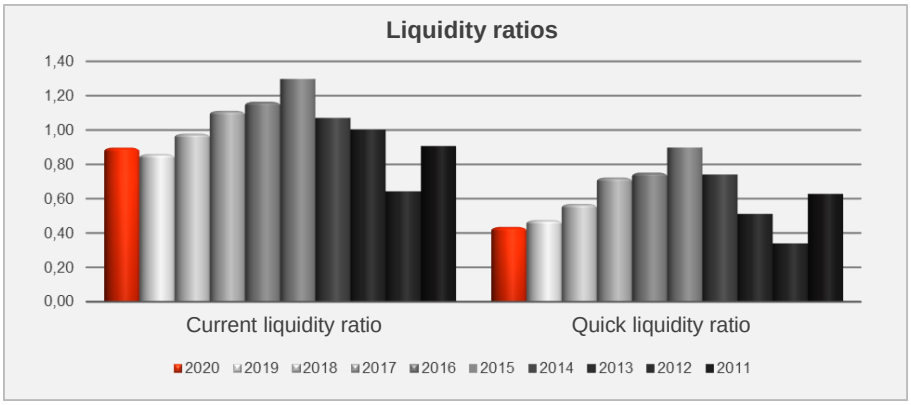
	2020	2019	2018	2017	2016	2015	2014	2013	2012	2011
Fixed assets coverage with equity capital *[Equity capital/fixed assets]*	0.64	0.63	0.78	0.83	0.80	0.81	0.76	0.71	0.65	0.62

Fixed assets coverage with constant capital *[(Equity capital + long-term liabilities)/fixed assets]*	0.96	0.94	0.99	1.05	1.06	1.10	1.03	1.00	0.79	0.95
Total debt ratio *[Total liabilities/total assets]*	0.53	0.54	0.46	0.45	0.43	0.44	0.47	0.49	0.53	0.58



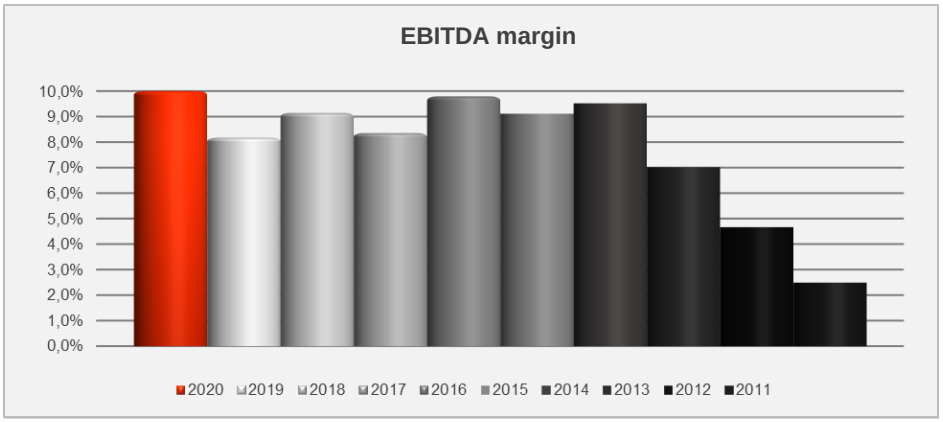
Liquidity ratios

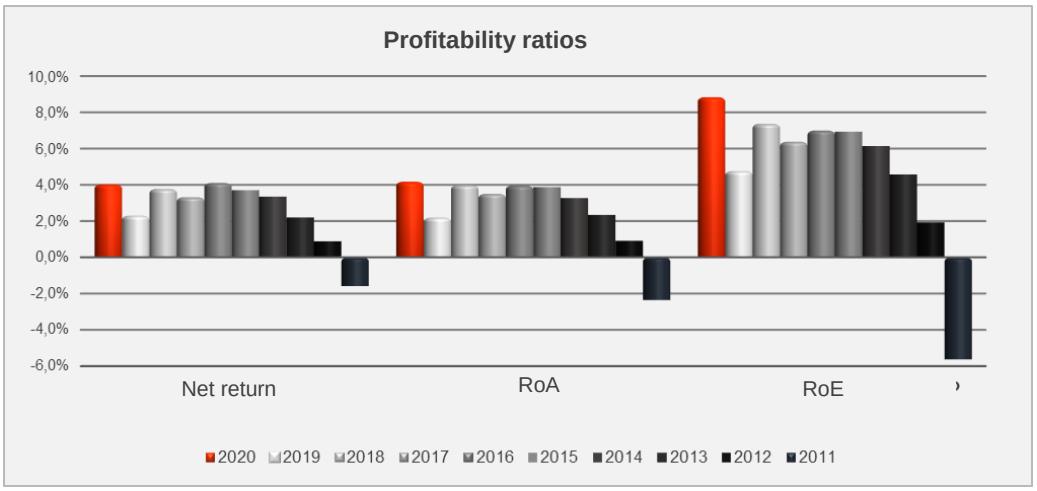
	2020	2019	2018	2017	2016	2015	2014	2013	2012	2011
Current liquidity ratio *[Current assets/short-term liabilities]*	0.90	0.86	0.98	1.11	1.16	1.30	1.07	1.00	0.64	0.91
Quick liquidity ratio *[(Current assets – inventories – short-term prepayments)/short-term liabilities]*	0.44	0.48	0.57	0.72	0.75	0.90	0.74	0.51	0.34	0.63



Profitability ratios

	2020	2019	2018	2017	2016	2015	2014	2013	2012	2011
Sales profitability [Gross profit (loss) on sales/net sales]	20.2%	22.7%	22.4%	22.2%	23.3%	21.0%	22.1%	21.9%	18.5%	11.1%
Operating profit margin [Profit (loss) on continued operations/net sales]	6.0%	4.2%	5.4%	5.0%	6.1%	5.8%	6.2%	3.9%	1.1%	-0.1%
Business activity profit margin [Gross profit (loss)/net sales]	5.1%	3.3%	4.7%	4.2%	5.3%	4.9%	4.7%	2.1%	0.2%	-1.3%
Return on sales [Net profit (loss)/net sales]	4.0%	2.3%	3.8%	3.3%	4.1%	3.7%	3.3%	2.2%	0.9%	-1.6%
ROA [Net profit (loss)/total assets]	4.2%	2.2%	4.0%	3.5%	4.0%	3.9%	3.3%	2.3%	0.9%	-2.4%
ROE [Net profit (loss)/equity capital]	8.8%	4.8%	7.4%	6.4%	7.0%	6.9%	6.1%	4.6%	1.9%	-5.6%
EBITDA margin [EBITDA/net sales]	10.1%	8.2%	9.1%	8.4%	9.8%	9.1%	9.5%	7.0%	4.7%	2.5%





Other financial information

Information about credit and factoring agreements signed and terminated

In the reporting year 2020 parties to credit and factoring agreements were Makarony Polskie SA and Stoczek Natura Sp. z o.o.

	31.12.2020	31.12.2019
- long-term part	11,514	17,995
- short-term part	15,379	16,500
Total	**26,893**	**34,495**

The balance of credit ad factoring agreements binding as at 31 December 2020, 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 2020
Credit agreement value	PLN 5,000 thousand
Credit period	18.10.2013 – 31.05.2021
Interest rate	WIBOR 1M + bank margin compliant with the standards applied by the bank
Credit balance	PLN 2,899 thousand
Repayment schedule	One-off at the date of maturity
Credit collateral	– Joint mortgage up to PLN 17,000,000 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 the first half of 2002, Makarony Polskie SA concluded an annex to the agreement on credit in the current account with Santander Bank Polska SA which introduced the following amendments to the agreement:

– 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),
- the liability repayment date was extended until 31 May 2021.

– Investment credit at Santander Bank Polska SA

Credit conditions	**31 December** 2020
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 3,879 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 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.

– 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 7,801,000
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 a semi-industrial line for tests with accessories, including the assignment of rights under the pledge object 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"

– EU investment credit at Santander Bank Polska SA

Credit conditions	31 December 2020
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 1,234 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 on 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

– Working capital credit at Santander Bank Polska SA

Credit conditions	31 December 2020
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 1,909 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.

– Credit in the current account at Bank Gospodarstwa Krajowego

Credit conditions	31 December 2020
Credit agreement value	PLN 6,000 thousand
Credit period*	14.06.2013 – 30.06.2021
Interest rate	WIBOR 3M + bank margin compliant with the standards applied by the bank
Credit balance	PLN 5,087 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).

Makarony Polskie SA concluded with Bank Gospodarstwa Krajowego an annex to the agreement on credit opened in the current account. The annex to the agreement on credit in the current account extends the repayment date of the liability from 30 June 2020 to 30 June 2021.

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

In the first half of 2020 Makarony Polskie SA availed of the not-revolving working capital credit in the credit account with the contractual value of PLN 5,000 thousand. In accordance with the provisions of the credit agreement, the credit was repaid in due time during the reporting year and the liabilities resulting from the agreement between the Company and the bank expired.

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

Agreement conditions	31 December 2020
Contractual value	PLN 5,500 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 2,255 thousand
Agreement collateral	– irrevocable power of attorney to the account, – blank promissory note and promissory note declaration.

As at 31 December 2020 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 2020
Credit agreement value	PLN 3,000 thousand
Credit period*	16.11.2017 – 16.11.2021
Interest rate	WIBOR 3M + bank margin compliant with the standards applied by the bank
Credit balance	PLN 2,973 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 2020 Stoczek Natura Sp. z o.o. concluded with Bank Gospodarstwa Krajowego an annex to the credit opened in the current account. The annex to the agreement on credit in the current account extends the repayment date of the liability from 16 November 2020 to 16 November 2021.

– Revolving working capital credit at Bank Gospodarstwa Krajowego*

  In 2020 Stoczek Natural Sp. z o.o. availed of the revolving working capital credit with the contractual value of PLN 2,500 thousand. In accordance with the provisions of the credit agreement, the credit was repaid in due time during the reporting year and the liabilities resulting from the agreement between the Company and the bank expired.

– Investment credit at Bank Gospodarstwa Krajowego*

Credit conditions	31 December 2020
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 4,634 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 notarialnego (up to PLN 9.6 million).

In Q.4, 2020 the Company signed an annex to the investment credit. The annex to the investment credit extended the period of credit limit use (until 8 October 2020).

* Credits taken out by Stoczek Natura Sp. z o.o. at Bank Gospodarstwa Krajowego in July 2019 were intended for financing the investment related to the project "Increase in competitiveness of Stoczek Natura Sp. z o.o. by 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 2020 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 2021 (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 2020.

Information on guarantees granted and obtained

In 2020 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 2020 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 Government Strategic Reserve Agency	– 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 Government Strategic Reserve Agency	– 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

Santander Bank Polska SA	157	until 31.01.2024	guarantee securing the Company's obligations under the agreement for storing pasta, under the contract concluded with the Government Strategic Reserve Agency	– blank promissory note and promissory note declaration

All guarantees binding for Stoczek Natura Sp. z o.o. as at 31 December 2020 are presented 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 Government Strategic Reserve Agency	– 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 Government Strategic Reserve Agency	– 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 Government Strategic Reserve Agency	– 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	until 31.08.2023	guarantee securing the Company's obligations under the agreement for storing preserves, under the	– 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 of rights under the property insurance policy;

			contract concluded with the Government Strategic Reserve Agency	– 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).

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 2020 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 31.12.2020
Security bond for a credit in the current account amounting to PLN 3.0 million	Bank BGK	4,500	16.05.2021	2,973
Security bond for an investment credit amounting to PLN 4.8 million	Bank BGK	4,812	08.11.2025	4,634
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	-

In 2020 Makarony Polskie SA granted a security bond to Stoczek Natura Sp. z o.o with regard to the revolving working capital credit in the amount of PLN 2.5 million – in connection with the credit repayment, the security bond expired.

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 2020 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 31.12.2020
Security bond for a credit in the current account	Santander Bank Polska SA	15,366	30.12.2026	2,899

amounting to PLN 5.0 million				
Security bond for an investment credit amounting to PLN 13.8 million	Santander Bank Polska SA			3, 879
Security bond for a credit in the current account amounting to PLN 6.0 million *	Bank BGK	6,000	30.12.2021	5,087
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	4,274

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 first half of 2020.

Major intercompany transactions of the Company and its subsidiaries on other than arm's length basis

In 2020 the Makarony Polskie Group companies did not make any major intercompany transactions on other than arm's length basis.

Within the Makarony Polskie Group the particular companies make intercompany purchase and sale transactions with regard to products, merchandise and services. There have been signed agreements by and between the companies, determining the cooperation conditions, adequately to the organizational structure of the Group. All transactions are made on arm's length basis.

Off-balance-sheet items

(PLN '000)	31 December 2020	31 December 2019
1. Contingent assets	**4,219**	**4,062**
– guarantees and security bonds obtained	4,219	4,062
– secured on property	0	0
– promissory notes	0	0
2. Contingent liabilities	**173,244**	**198,995**
– guarantees and security bonds granted	0	0
– secured on property	109,481	124,653

– promissory note payables	63,763	74,342
Total off-balance-sheet items	**-169,025**	**-194,933**

The values of guarantees, security bonds, promissory note payables, mortgages and other off-balance-sheet liabilities have been presented in the above table in their maximum values.

The specification does not cover for security bonds among the Group companies owing to the fact that this does not affect the value of the off-balance-sheet items.

Important court litigations, arbitration proceedings or administrative proceedings

In the presented reporting period there were no pending important court ligations or any arbitration or administrative proceedings regarding the liabilities or receivables of the Company or its subsidiaries.

Post-balance-sheet events that could have a significant impact on the financial results

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

Short information on Makarony Polskie SA

Results discussion

The financial statements of Makarony Polskie SA have been prepared on the basis of the International Financial Reporting Standards, assuming that the Company will continue its business activity in the foreseeable future and within a scope that has not been materially changes. The Company did not carry out any activity that was discontinued in the financial year 2020.

The selected financial data of Makarony Polskie SA as at 31 December 2020, expressed in PLN thousands, are as follows:

(PLN '000)	01.01.2020-31.12.2020	01.01.2019-31.12.2019
Net sales revenues	172,039	151,251
Net sales revenues of products and services	136,468	120,110
Net sales revenues of merchandise and materials	35,571	31,141
Prime cost	138,246	118,314
Cost of manufacturing of products and services sold	105,979	90,576
Value of merchandise and materials sold	32,267	27,738
Gross profit (loss) on sales	33,793	32,937
Costs of sales	20,496	20,157
General management costs	4,990	5,137
Other revenues	2,466	1,162
Other costs	877	741
Profit (loss) on continued operations	9,896	8,064
Financial revenues	158	110
Financial costs	1,488	1,140
Gross profit	8,566	7,034
Income tax – current part	2,123	1,565
Income tax – deferred part	-309	-117
Net profit (loss) on continued operations	6,752	5,586
EBITDA (EBIT + depreciation)	15,787	13,292

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

** Book value per ordinary share = equity/number of shares at the balance-sheet date

The revenues in 2020 amounted to approx. PLN 172,0 million and were higher by approx. 13.7% (+PLN 20.8 million) compared to 2019 which was mainly caused by the growth in the pasta segment (PLN 17.2 million YoY).

The costs of products, services, merchandise and materials sold in 2020 amounted to PLN 138.2 million (increase by about 16.8%).

Makarony Polskie SA closed 2020 year with gross sales profit at the level of approx. PLN 33.8 million (growth by PLN 0.9 million compared to 2019), with gross sales profitability at the level of approx. 19.6% (21.8% in 2019).

The result on operating activities (EBIT) in 2020 was PLN 9.9 million, compared to approx. PLN 8.1 million in 2019, i.e. 22.7% growth. Profitability at EBIT level amounted to 5.8% (compared to 5.3% in 2019).

Net profit in 2020 amounted to approx. PLN 6.8 million and was higher than the profit in 2019 by approx. PLN 1.2 million (+20.9%). Sales profitability calculated at the net profit was 3.9% (compared to 3.7% in 2019).

In 2020, the Company recorded EBITDA at the level of approx. PLN 15.8 million compared to approx. PLN 13.3 million in 2019, which gives an increase by PLN 2.5 million YoY, i.e. 18.8%. EBITDA profitability in 2020 was 9.2% compared to 8.8% in 2019.

Separate statement of other comprehensive income, net – hedge accounting applied

FOR THE PERIOD	01.01.2020-31.12.2020	01.01.2019-31.12.2019
Net comprehensive income	6,752	5,586
Profit/loss on account of hedge accounting application	0	0
Total net comprehensive income	6,752	5,586

Market environment

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). In 2020 the Company generated the following sales revenues:

PLN '000	2020	2019	YoY
Sales revenues	172,039	151,251	13.7%

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).

In 2020 only 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 24.9% share and Grupa Lidl with approximately 17.6%. The Company is in no way related to the operator of those shop chains, whereas cooperation is carried out on partner basis and is favorable to Makarony Polskie SA.

Private label

The largest share in the Company revenues (61.5%) 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	2020	2019	YoY
Incomes on sale	105,1828	93,139	13.6%

In 2020, the dynamics of growth in pasta sales in the private label segment was significantly faster than the market rate of the entire category year-over-year. The consumers' behavior connected with the pandemic was a significant growth factor. Pasta, as a dry category, perfect for storage in stock – has increased during the pandemic. The consumers were buying less often but more – while taking care of the budget at the same time – they were choosing cheaper products, in private labels of the commercial networks.

Other growth factors of the private label segment include the development of assortment in the attractive, growth market areas (healthy, vegetarian, rolled, egg pasta).

Modern trade and traditional trade

Another significant revenue source for the Company accounting for approx. 18.0% 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)	2020	2019	YoY
Incomes on sale	31,005	27,538	12.6%

The growth of sales of brand products by approx. 12.6% year-over-year was caused by both increasing turnover with the existing customers and acquiring new contractors. The situation

connected with the COVID-19 pandemic and increased market demand for dry products with long shelf life had also an impact on the achieved growths.

In 2021 the Group aims at further development of cooperation with the existing customers and improvement of sales number by acquiring new, previously not covered domestic and local networks for cooperation.

B2B and Institutions

B2B and institutions represented approx. 13.1% of the total revenues of the Company:

B2B and institutions (PLN '000)	2020	2019	YoY
Sales revenues	22,622	17,876	26.5%

Sales in the B2B and institutions channel in 2020 amounted to about PLN 22.6 million and were by approx. PLN 4.7 million (i.e. +26.5%) higher than in 2019. The increase of sales resulted mainly from the increases sales of pasta products in subcontracting under the institutional contract.

Exports

Exports in the Group's total revenues for 2019 accounted for 7.3%:

Export (in PLN '000)	2020	2019	YoY
Incomes on sale	12,584	12,698	-0.9%

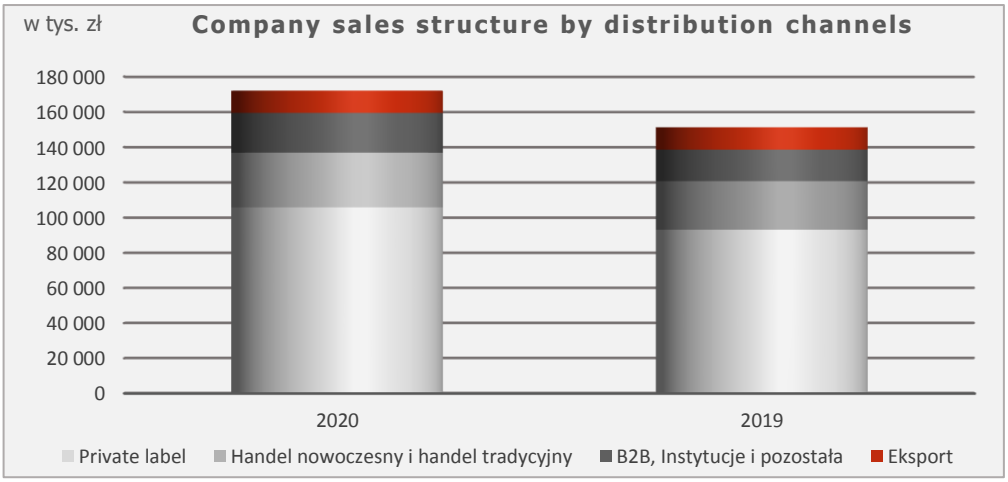
In the entire 2020, the Company's export strategy was focused on acquiring new customers in EU and non-EU countries.

The main export market is still Ukraine where the Company systematically acquires new networks and distributors. In 2020, the Company's export activity was expanded with such countries as Norway, Belgium, Sweden.

Operating segments

Sales structure by distribution channels at Makarony Polskie SA

The sales structure of products and merchandise broken down into distribution channels is presented in the chart below:



Sales revenues by operating segments

(PLN '000)	For the period from 01.01 to 31.12.2020	For the period from 01.01 to 31.12.2019
Pasta	135,380	118,217
Meat and vegetable preserves	18,328	18,047
Vegetable preserves and stuffing	1,239	1,098
Fruit preserves	8,457	7,742
Other	8,635	6,147
Total	**172,039**	**151,251**

Sales revenues of Makarony Polskie SA in 2020 amounted to PLN 172.0 million and were higher by approx. PLN 20.8 million compared to the corresponding period in 2019.

The value of sales in the category of pasta grew by PLN 17.2 million to PLN 135.4 million in 2020. The growth of about 15% was a result of sales growth under the brands of commercial networks, Makarony Polskie brand development on the domestic market and performance of the subcontracting agreement under the institutional contract at the higher level compared to the corresponding period of the previous year.

Another segment in which positive dynamics of changes has been recorded is the segment of fruit products. In the analyzed period, it increased by approx. PLN 0.7 million to the amount of nearly PLN 8.5 million, which was caused by the sales growth in the category of jams and plum jams.

The sales of meat and vegetable preserves increased in the analyzed period by approx. PLN 0.3 million to the amount of approx. PLN 18.3 million. The growth by approx. 2% (2020 versus 2019) was a result of sales growth under private labels and commercial network brands. In

the analyzed period a new line of dishes on trays under the SoFood brand was introduced on the market.

The sales in the segment of vegetable preserves and stuffing increased in the analyzed period by PLN 0.1 million to the amount of nearly PLN 1.2 million.

Structure of assets and equity/liabilities

The balance-sheet total of Makarony Polskie SA as at 31 December 2020 amounted to PLN 155.8 million, compared to PLN 151.7 million as at 31 December 2019.

Structure of assets and equity/liabilities

ASSETS	01.01.2020-31.12.2020	01.01.2019-31.12.2019
FIXED ASSETS	**116,891**	**113,267**
Tangible fixed assets	78,249	73,444
Fixed assets – IFRS-16	2,524	4,091
Investment properties	603	603
Goodwill	0	0
Other intangible assets	5,390	4,944
Long-term financial assets, of which:	30,080	30,080
Shares	30,080	30,080
Loans granted	0	0
Deferred income tax assets	0	0
Other long-term assets	45	105
CURRENT ASSETS	**38,945**	**38,445**
Inventories	15,046	10,655
Short-term receivables	21,273	24,825
Income tax receivables	0	0
Loans granted	2,006	2,006
Cash and cash equivalents	374	701
Other short-term assets	246	258
Fixed assets held for sale	0	0
TOTAL ASSETS	**155,836**	**151,712**

EQUITY/LIABILITIES	01.01.2020-31.12.2020	01.01.2019-31.12.2019
EQUITY CAPITAL	**81,805**	**77,366**

Share capital	27,750	27,750
Supplementary capital	35,303	32,362
Reserve capital	12,000	12,000
Retained profit/loss (profit/loss from previous years)	0	- 332
Net profit/loss	6,752	5,586
LONG-TERM LIABILITIES	**32,616**	**34,449**
Deferred income tax provision	2,942	3,250
Long-term bank credits and borrowings	7,949	14,772
Long-term financial liabilities – subsidy of the Polish Development Fund (PFR)	1,104	0
Provision for retirement benefits and equivalent (long-term)	336	300
Revenues from future periods - long-term	16,944	11,711
Long-term financial liabilities - leasing	1,297	1,141
Long-term financial liabilities - IFRS-16	2,044	3,275
SHORT-TERM LIABILITIES	**41,415**	**39,897**
Short-term bank credits and borrowings	11,336	10,907
Short-term financial liabilities - subsidy of the Polish Development Fund (PFR)	368	0
Short-term financial liabilities - leasing	826	685
Short-term financial liabilities - IFRS-16	555	884
Other short-term liabilities	24,999	25,411
Income tax liabilities	1,001	426
Revenues from future periods - short-term	1,149	885
Provision for retirement benefits and equivalent (short-term)	1,181	699
Other short-term provisions	0	0
TOTAL LIABILITIES	**74,031**	**74,346**
TOTAL EQUITY/LIABILITIES	**155,836**	**151,712**

As at 31 December 2020, fixed assets were worth approx. PLN 116.9 million (75.0% of total assets) compared to approx. PLN 113.3 million at the end of 2019 (growth by approx. 3.2% versus the end of 2019). The increase in the value of fixed assets resulted from the investments carried out in the production plants in Rzeszów and Częstochowa.

As at 31 December 2020, current assets were approx. PLN 38.9 million and increased by approx. 1.3% compared to the end of 2019 (approx. PLN 38.4 million). The increase in inventories by approx. PLN 4.4 million, i.e. by approx. 41.2% accompanied by a drop in receivables by approx. PLN 3.6 million, i.e. by approx. 14.3% and a drop in cash by approx. PLN 0.3 million, i.e. by approx. 46.6% compared to the end of 2019 had the greatest impact on the change in current assets.

Equity as at the balance-sheet date amounted to approx. PLN 81.8 million, constituting approx. 52.5% of the value of equity and liabilities and it increased by 5.7% in comparison to PLN 77.4 million at the end of 2019. The change was caused by the achieved profit for 2020 in the amount of PLN 6.8 million and the allocation of part of the net profit for 2019 to dividend in the amount of PLN 2.3 million.

Long-term liabilities amounted to approx. PLN 32.6 million and they dropped by approx. 5.3% (from PLN 34.4 million) in comparison to the end of 2019, mainly due to the repayment of part of the long-term credits in accordance with the applicable schedules (reclassification of part of long-term credits to short-term liabilities in connection with the maturity of instalments in the period below one year from the balance-sheet date) and as a result of subsidies received (-PLN 6.8 million), increase in deferred income as a result of subsidies received after settling the projects covered by the EU support (+PLN 5.2 million), decrease in liabilities resulting from the application of IFRS-16 (-PLN 1.2 million) and receipt of subsidies (+PLN 1.1 million).

As at 31 December 2020, short-term liabilities amounted to approx. PLN 41.4 million and increased in comparison to the end of 2019, i.e. the amount of approx. PLN 39.9 million. The biggest changes in short-term liabilities are: an increase in the income tax liabilities (+PLN 0.6 million) and provisions for retirement benefits and equivalent (+PLN 0.5 million).

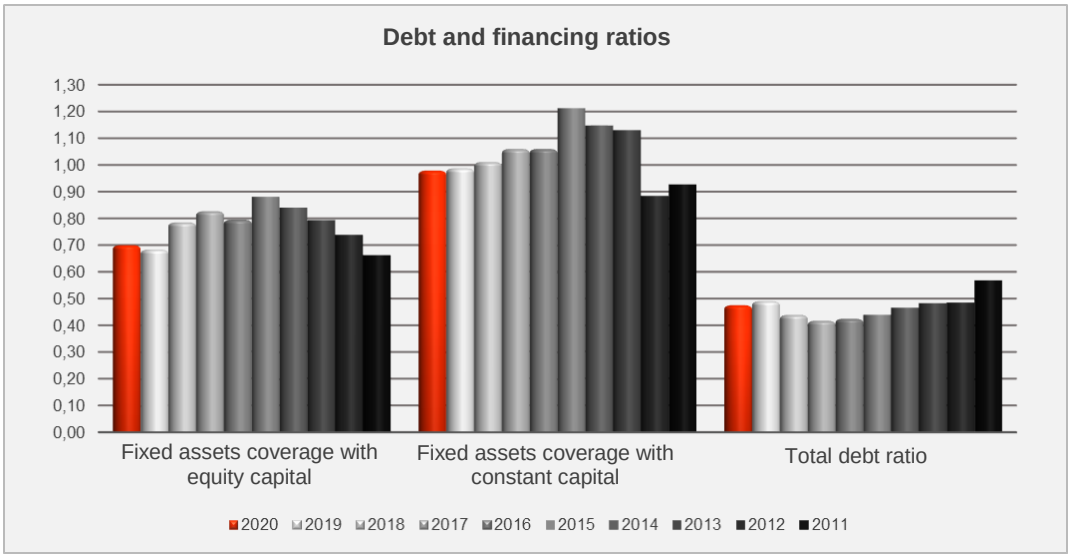
Ratio analysis

The return, liquidity and debt ratios analysis reflects good financial standing of Makarony Polskie SA in 2020 as regards profitability, capacity to pay liabilities as well as security of financing current and investment activities.

The level of return and cash flows generated by the Company enabled it to pay out dividend to shareholders in 2020 in the amount of PLN 2.3 million, carry out many investments, purchase some raw materials at attractive prices without trade credit and maintain safe debt level, among other things.

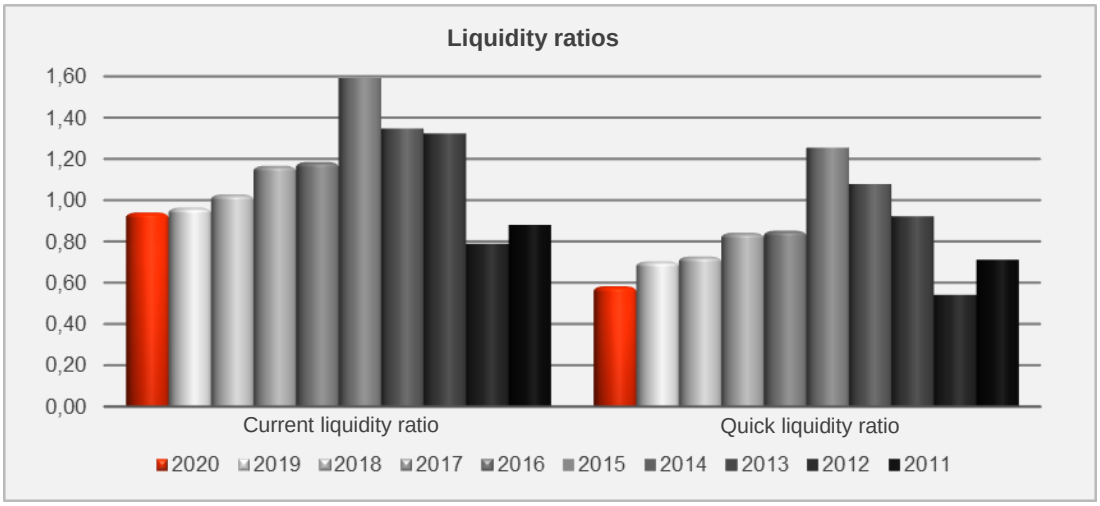
Debt and financing ratios

	2020	2019	2018	2017	2016	2015	2014	2013	2012	20
Fixed assets coverage with equity capital *[Equity capital/fixed assets]*	0.70	0.68	0.78	0.83	0.80	0.88	0.84	0.79	0.74	0.
Fixed assets coverage with constant capital *[(Equity capital + long-term liabilities)/fixed assets]*	0.98	0.99	1.01	1.06	1.06	1.21	1.15	1.13	0.88	0.
Total debt ratio *[Total liabilities/total assets]*	0.48	0.49	0.44	0.42	0.42	0.44	0.47	0.48	0.48	0.



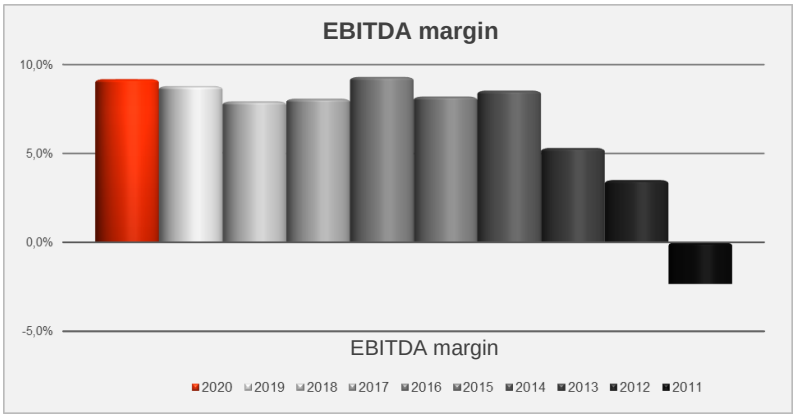
Liquidity ratios

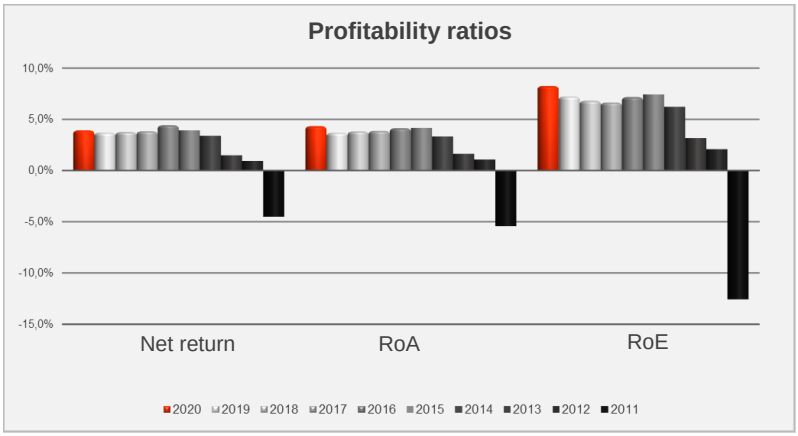
	2020	2019	2018	2017	2016	2015	2014	2013	2012	2011
Current liquidity ratio *[Current assets/short-term liabilities]*	0.94	0.96	1.03	1.17	1.19	1.59	1.35	1.32	0.79	0.88
Quick liquidity ratio *[(Current assets – inventories – short-term prepayments)/short-term liabilities]*	0.58	0.70	0.72	0.84	0.85	1.25	1.08	0.92	0.54	0.71



Profitability ratios

	2020	2019	2018	2017	2016	2015	2014	2013	2012	2011
Sales profitability [Gross profit (loss) on sales/net sales]	19.6%	21.8%	22.0%	21.0%	21.8%	21.0%	21,8%	20,3%	17,2%	11,3%
Operating profit margin [Profit (loss) on continued operations/net sales]	5.8%	5.3%	5.2%	5.1%	6.3%	5.8%	5.9%	2.9%	0.8%	-5.4%
Business activity profit margin [Gross profit (loss)/net sales]	5.0%	4.7%	4.7%	4.8%	5.6%	5.1%	4.7%	1.5%	0.1%	-4.4%
Return on sales [Net profit (loss)/net sales]	3.9%	3.7%	3.8%	3.8%	4.4%	3.9%	3.4%	1.5%	0.9%	-4.5%
ROA [Net profit (loss)/total assets]	4.3%	3.7%	3.8%	3.9%	4.1%	4.2%	3.3%	1.6%	1.1%	-5.4%
ROE [Net profit (loss)/equity capital]	8.3%	7.2%	6.8%	6.6%	7.2%	7.4%	6.2%	3.2%	2.1%	-12.6%
EBITDA margin [EBITDA/net sales]	9.2%	8.8%	7.9%	8.1%	9.3%	8.2%	8.5%	5.3%	3.5%	-2.3%





Off-balance-sheet items

(PLN '000)	31 December 2020	31 December 2019
1. Contingent assets	**36,904**	**63,881**
- guarantees and security bonds obtained	34,904	61,881
- secured on property	0	0
- promissory notes	2,000	2,000
2. Contingent liabilities	**134,985**	**159,105**
–- guarantees and security bonds granted	12,090	13,090
– secured on property	81,167	94,772
– promissory note payables	41,728	51,243
Total off-balance-sheet items	**-98,081**	**-95,224**

The values of guarantees, security bonds, promissory note payables, mortgages and other off-balance-sheet liabilities have been presented in the above table in their maximum values.

In 2020, the Company applied "The Best Practice for GPW Listed Companies 2016"

Corporate Governance

Statement of compliance with corporate governance rules

In 2020, the Company applied "The Best Practice for GPW Listed Companies" (Best Practice). A document comprising the Best Practice rules is available on the website of Giełda Papierów Wartościowych w Warszawie SA [Warsaw Stock Exchange] at: http://corp-gov.gpw.pl.

Explanations of the Company regarding the method of application of the particular rules included in "The Best Practice for GPW Listed Companies 2016" collection in reference to the year 2020:

Information policy and communication with investors

- *I.Z.1.16. The Company maintains a corporate website where in a separate section it publishes in a reader-friendly form not only the information required by law but also the information about the planned transmission of the General Meeting – 7 days prior to the date of the General Meeting at the latest,*

  The Company does not record the course of the General Meeting. If the Company decides to transmit the General Meeting online, the relevant information will be shown on the corporate website at 7 days prior to the date of the General Meeting at the latest.
- *I.Z.1.20. The Company maintains a corporate website where in a separate section it publishes in a reader-friendly form not only the information required by law but also the information an audio or video recording of the General Meeting.*

  The Company does not apply the above principle. The Company does not make any audio or video recordings of the course of the General Meeting.
- *I.Z.2. A company whose shares are qualified to WIG20 or mWIG40 stock exchange indexes shall ensure that its website is available also in English, at least within the scope specified in the principle I.Z.1. This principle shall also be applied by companies that are not qualified to the said indexes, if their shareholding structure or the nature and scope of their business so require.*

  The shares of the Company are qualified neither to WIG20 nor to mWIG40 stock exchange indexes.

  With regard to the current shareholding structure, the Company applies utmost effort that the contents available on its website in English covers all of the subjects to which that principle applies.

Internal systems and functions

- *III.Z.3. As regards a person managing the internal audit function and other persons responsible for execution of the function, the independence principles specified in the commonly acknowledged international standards of internal audit professional practice apply.*

  The Company does not apply the above principle. A person in charge of internal audit reports directly to the Management Board, however, he/she does not meet the criterion of organizational independence specified in the commonly acknowledged international standards of internal audit professional practice, namely that in functional terms a person in charge of internal audit shall report to the Supervisory Board (this means that Supervisory Board does not sign off a decision on appointing or recalling the internal audit manager or does not approve the remuneration of the internal audit manager).

General Meeting and relations with shareholders

- *IV.Z.2. If it is justified by the structure of the Company's shareholding, the Company shall transmit the General Meeting sessions for general public in real time.*
- The Management Board of Makarony Polskie SA assessed that in 2020 incurring such costs would not be justified by the structure of the Company's shareholding.
- *IV.Z.3. Mass media representatives may be present at General Meeting sessions.*

  The Company does not apply the above principle. The Management Board of Makarony Polskie SA assessed that currently the presence of the representatives of mass media would not be justified by the structure of the Company's shareholding.

Conflict of interest and transactions with related companies

- *V.Z.6. The Company specifies in its internal regulations the criteria and circumstances giving rise to a conflict of interest within the Company, as well as the principles of conduct in case of a conflict of interest or a possibility of such conflict existence. The internal regulations of the Company take into account, among other things, the ways of prevention, identification and solving of conflicts of interest, as well as the principles of excluding a member of the Management Board or a member of the Supervisory Board from participation in considering a case, in the event of a conflict of interest or a threatened conflict of interest.*

  The Company does not apply the above principle. The current internal regulations of the Company do not meet all the requirements of that principle. The Company will do its best to implement adequate internal regulations that would meet all those requirements.

Internal control and risk management system in the process of financial statements preparation

Being a parent company, Makarony Polskie SA prepares separate and consolidated financial statements based on the commonly applicable legal and internal regulations. The books of account are kept based on the principles adopted and approved for application by the Management Board of the Company. This includes the Accounting Policy and the Chart of Accounts in conformity with IFRS, which are updated from time to time. The subsidiaries are obligated to implement and use internal documents coherent with the documents of the parent company. The books of account of the Group companies are kept in an ERP class system, whereas access to the IT resources is restricted by the rights granted to a specific group of employees.

On a current basis the Company monitors significant factors of legal, tax, economic, operational and similar risks which set the general directions of the operations of the Makarony Polskie Group.

The Management Board of the Company is responsible for the internal control system at the Company and its effectiveness in the process of preparation of financial statements and interim reports which need to be prepared in accordance with the legal regulations and published in conformity with the principles of the Regulation of the Minister of Finance of 29 March 2018 on the current and interim information disclosed by the issuers of securities [...].

The basic assumption of the Company internal control system applicable to financial reporting is ensuring adequacy and correctness of financial information disclosed in the financial statements and interim reports.

The Accounting Office is responsible for preparation of the financial statements and interim financial reports, while the Financial Office is responsible for current management reporting of the Company and of the Group. Presenting the financial data in the financial statements, interim financial reports and other reports disclosed to the investors, the Company applies coherent accounting rules.

The financial data used as a basis of the financial statements and interim reports come from the monthly financial and operational reporting applied by the Company. Upon accounting closure of each calendar month, the Financial Office and the Management Board analyse the financial results of the Company comparing them to assumptions for the particular business segments. The identified errors are corrected on a current basis in the Company's books of account, in compliance with the adopted accounting policy.

Preparation of financial statements and interim reports starts after verification and acceptance of the results of the month/period ended by the Management Board. Interim reports of the

Company are prepared by the financial and accounting services under the supervision of the Chief Accountant (based on the financial data presented in the interim financial statements) and the Financial Office staff, and are subject to verification by the Director of the Financial Office and the Company Management Board.

The annual separate and consolidated financial statements of the Group companies are audited by an independent statutory auditor. The semi-annual individual and consolidated financial statements of the Group companies are reviewed by a statutory auditor.

Within the Supervisory Board of Makarony Polskie SA there operates the Audit Committee, appointed by the Supervisory Board members. The Audit Committee monitors the financial reporting processes at the Company, the efficiency of the internal control and risk management systems as well as internal audit (also in reference to financial reporting), performing the financial audit activities, and specifically auditing the financial statements of the Company by an audit firm, in consideration of any conclusions and determinations of the Audit Supervision Commission on the basis of control carried out at the respective audit firm.

The Audit Committee members maintain direct contacts with the statutory auditor carrying out the audit of Makarony Polskie SA financial statements, and inform the Supervisory Board about the results of the Company financial statements audit, provide an explanation of the way in which the audit contributed to the fairness of financial reporting at the Company, and the role played by of the Audit Committee in the audit process.

At the last stage, the financial statements are also finally assessed by the Supervisory Board of Makarony Polskie SA.

Information about the principles of changing the entity authorized to audit the financial statements

In accordance with § 19.c of the Articles of Association of Makarony Polskie SA, selection of a statutory auditor to audit the Company financial statements falls within the powers of the Supervisory Board. The selection is made based on the Audit Committee recommendation.

At least every five years, a new statutory auditor is selected.

The rules concerning a change of the entity authorized to audit the financial statements are provided for in § 4 of the By-law of the Supervisory Board of the Company. A policy of selection of an audit firm to carry out the audit of financial statements as well as a Procedure of selection of an audit firm to carry out the audit the financial statements, both prepared by the Audit Committee of the Supervisory Board, are binding at the Company.

An entity that is to perform the function of the statutory auditor at the Company is selected such as to ensure independence during the performance of the entrusted tasks. The assessment of the statutory auditor's independence at the particular stages of selection, as

well as during further cooperation, is made by the Audit Committee. The Audit Committee also consents to the provision by the statutory auditor and the audit firm of the allowed non-audit services, in accordance with the principles of the Policy passed and implemented in that area.

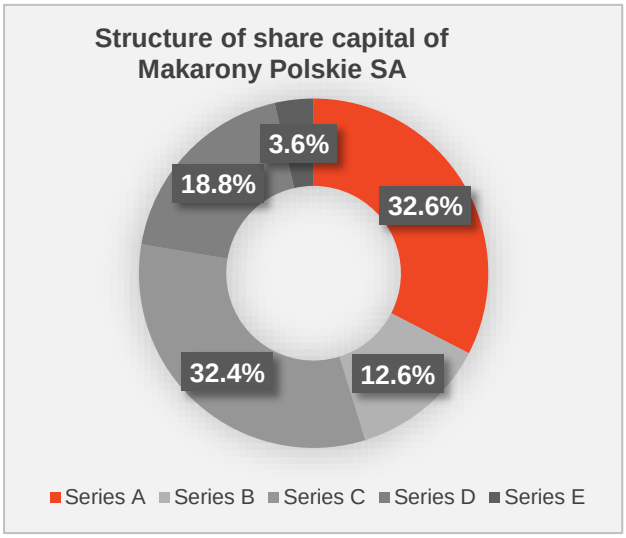
Share capital

Share capital of Makarony Polskie SA:

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

Structure of the share capital of the Company:

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



The shares of the Company are ordinary bearer shares quoted on regulated market run by Giełda Papierów Wartościowych w Warszawie SA [Warsaw Stock Exchange]. The Company did not issue any securities granting any special control rights to any of its shareholders.

There are no limitations at the Company with regard to exercising the right of vote. Moreover, there are no limitations regarding the transfer of ownership rights to the securities issued by the Company.

Shares held by majority shareholders (above 5% of the capital)

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

Shareholder	Shares in the share capital		Votes in the General Meeting	
	number	% share	number	% share
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 the shareholding in 2020

In 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 does not have any other information that would indicate changes in the number of shares held by the shareholders (holding shares stakes exceeding 5%) in 2019 and by the date of publishing this report.

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

Shares held by the Members of the Management Board

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

Management Board Member	2020		2019	
	Number of shares	Nominal value	Number of shares	Nominal value
Zenon Daniłowski*	140,000	420,000	140,000	420,000

* President of the Management Board Zenon Daniłowski is related to Praska Giełda Spożywcza SA and Polskie Smaki Sp. z o.o. that also hold shares of the Company. The total shareholding as at the report publication date is 2,311,594 shares worth PLN 6,934,782.

In accordance with the information possessed by the Company no changes in the status of shares held by the President of the Management Board occurred during 2020 and by the publication date of this report.

Shares held by the Members of the Supervisory Board

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

Member of the Supervisory Board	2020		2019	
	Number of shares	Nominal value	Number of shares	Nominal value
Marek Rocki	0	0	0	0
Ahmed Khalil *	0	0	-	-
Janusz Pierun *	0	0	-	-
Michał Słomkowski	0	0	0	0
Roman Sobiecki	0	0	0	0

Wiesław Wasilewski	6,550	19,650	6,550	19,650

* The Members of the Supervisory Board, Ahmed Khalik and Janusz Pierun were appointed as members of the Company's Supervisory Board on 24 September 2020.

In accordance with the information possessed by the Company no changes in the status of shares held by the Members of the Supervisory Board occurred during 2020 and by the publication date of these statements.

Shares in subsidiaries

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

The right to make decisions on shares issue or redemption

In accordance with § 9 of the Articles of Association of the Company, the share capital may be increased and decreased pursuant to the procedure specified in the Code of Commercial Companies, or by way of a public offering on the terms and conditions specified in the Act of 29 July 2005 on Public Offering and Conditions Governing Introduction of Financial Instruments to Organized Trading, and on Public Companies (as amended).

Authorization for the Management Board to repurchase the Makarony Polskie SA own shares

On 18 June 2019 the General Meeting of the Company, in response to the request submitted by one of the shareholders, by Resolution No. 16, decided to authorize the Management Board of the Company to repurchase ordinary bearer shares of Makarony Polskie SA, of the nominal value of PLN 3.00 each, listed on the basis market of the Warsaw Stock Exchange, i.e. the market of official stock listings.

In accordance with the decision of the General Meeting, the Company is entitled to repurchase fully covered Own Shares, whereby the maximum number of own shares which the Company may repurchase is 1,850,014 shares, providing that the total nominal value of the repurchased shares together with the nominal value of the other shares which have not been sold by the Company does not exceed 20% of the Company share capital. The shares will be repurchased specifically for the purpose of: redemption, resale or conversion.

The authorization covers the period of 5 years, starting from the date of passing the Resolution of the General Meeting, and ending not later than at the moment of complete utilization of the reserve capital created for the purpose of own shares repurchase.

The price for one share will be from PLN 6.00 to PLN 8.52, and the total maximum price for repurchased shares will not be higher than the value of the reserve capital created for that purpose.

The Management Board shall disclose in public the date of commencement and completion of own shares repurchase period, as well as the terms and conditions of repurchasing the own shares which have not been specified in the Resolution of the General Meeting, in accordance with Article 56 of the Act of 29 July 2005 on Public Offering (…) and in accordance with the Regulation (EU) No. 596/2014 of the European Parliament and of the Council of 16 April 2014 on market abuse (…).

Within the authorization, the Management Board may repurchase own shares solely as a result of an announcement of an invitation to submit own shares sale offers which will be made through an entity running a brokerage business, whereas the minimum number of own shares per invitation may not be smaller than 300,000.

The General Meeting authorized the Management Board to take any actual and legal steps needed to repurchase own shares in accordance with the passed Resolution and to determine the other terms and conditions of acquiring own shares in the scope which has not been regulated in the Resolution.

Reserve capital in the amount of PLN 12.0 million has been created for the purpose of own shares repurchase on the basis and within the limits of the authorization granted to the Management Board. The reserve capital was created by transferring the amount of PLN 12.0 million from the Company's supplementary capital.

Principles of making amendments in the Articles of Association of Makarony Polskie SA

The Articles of Association of Makarony Polskie SA in the currently binding wording do not include any stipulations regarding the Articles amendment otherwise than in accordance with the provisions of the Code of Commercial Companies.

In accordance with Article 430 of the Code of Commercial Companies, any amendment of the Articles of Association requires a resolution passed by the General Meeting and an entry in

the register. A resolution of the General Meeting concerning amendments to the Articles of Association must be passed with the majority of 3/4 of the votes cast – Article 415 of the Code of Commercial Companies.

The Articles of Association of Makarony Polskie SA are available on the website of the Company at: www.makarony.pl.

General Meeting

The principal rights of the General Meeting

The competencies of the General Meeting include taking decisions on matters concerning organization and operation of the Company, except for the cases specified in the Code of Commercial Companies and the Articles of Association of the Company.

Operation of the General Meeting

The General Meeting operates in accordance with the Code of Commercial Companies, the Articles of Association of the Company and the By-law of the General Meeting of Makarony Polskie SA adopted by virtue of Resolution No. 24 of the Annual General Meeting of Makarony Polskie SA on 28 June 2016.

An Annual General Meeting is convened by the Management Board annually and takes place within 6 months of the end of each reporting year. An Extraordinary General Meeting is convened by the Management Board on their own initiative, by the Supervisory Board if the Board members deem it advisable, or by shareholders representing at least half of the share capital or at least half of the total votes in the Company.

The General Meeting shall be held at the registered office of the Company or at another place within the territory of the Republic of Poland. The venue and date of the General Meeting are determined such as to enable participation of the possibly largest number of shareholders.

The General Meeting is convened in the way specified for disclosure of current information by public companies with the simultaneous publication of the respective announcement on the website of the Company at: www.makarony.pl .

The General Meeting is capable of adopting resolutions irrespective of the number of shares represented at the session, unless the Code of Commercial Companies provides otherwise. Without prejudice to the provisions of Article 404 of the Code of Commercial Companies, the General Meeting may adopt resolutions only concerning the affairs stipulated in the Code of

Commercial Companies and the Articles of Association, which are covered by the agenda of a given Meeting.

The resolutions of the General Meeting shall be adopted by absolute majority of the votes cast, unless the binding laws or the Articles of Association provide otherwise.

Voting is open. Secret balloting is ordered by the chairperson of the General Meeting for personal matters and at the request of a shareholder. The right to demand secret balloting does not apply to resolutions concerning organizational matters. The General Meeting may rescind the secrecy of voting in cases concerning the appointment of commissions to be established by Meeting.

Shareholders' rights

The rights of the shareholders and the method of executing them at the General Meeting are defined in the Code of Commercial Companies, the Articles of Association and the By-law of the General Meeting.

The shareholders representing at least half of the Company share capital or at least half of the votes in the Company are entitled to convene an Extraordinary General Meeting.

Only those who are the shareholders of the Company 16 days prior to the date of the General Meeting (record date) may participate in the General Meeting. The shareholders may participate in the General Meeting in person or by a proxy. All shareholders may express their opinions about the matters covered with the agenda.

Description of the procedures of participation in the General Meeting and execution of the rights to vote is each time published in an announcement about the General Meeting.

General Meeting in 2020

In the reporting year 2020, the Annual General Meeting of Makarony Polskie SA took place on 24 September. The agenda of the General Meeting included:

- consideration and approval of the financial statements of Makarony Polskie SA for the reporting year 2019,
- consideration and approval of the Management Board report on the operations of the Company and the Makarony Polskie Group in the reporting year 2019,
- consideration and approval of the consolidated financial statements of the Makarony Polskie Group for the reporting year 2019,
- net profit distribution for the reporting year 2019,

- coverage of accumulated previous years net loss of Makarony Polskie SA as reflected in the balance sheet of the Company as at 31 December 2019,
- consideration of the report of the Supervisory Board of Makarony Polskie SA for the reporting year 2019,
- granting the vote of approval to the Members of the Company Management Board with regard to their fulfilment of duties in the reporting year 2019,
- granting the vote of approval to the Members of the Company Supervisory Board with regard to their fulfilment of duties in the reporting year 2019,
- adopting the Remuneration Policy of the Members of the Management Board and Supervisory Board at Makarony Polskie SA,
- setting the number of Members of the Supervisory Board of Makarony Polskie SA of the 9th term at 6 persons,
- appointing the Members of the Supervisory Board of Makarony Polskie SA of the 9th term,
- determining the principles and remuneration amount for the Members of the Supervisory Board of Makarony Polskie SA of the 9th term.

The resolutions of the Annual General Meeting were published in the current report No. 17/2020 of 24 September 2020. Moreover, they are available on the website of the Company at: www.makarony.pl.

The Management Board did not convene any Extraordinary General Meetings. Neither the shareholders of the Company nor the Members of the Supervisory Board submitted any other requests for convening of the General Meeting.

The Members of the Management Board and of the Supervisory Board participated in the sessions of the General Meetings and were able to provide subject-related answers to any questions raised by the shareholders at the General Meeting.

Supervisory Board

The Supervisory Board of Makarony Polskie SA operates based on the Code of Commercial Companies, the Articles of Association of the Company and the By-law of the Supervisory Board adopted by virtue of Resolution No. 25 of the Annual General Meeting of Makarony Polskie SA of 28 June 2016.

The principles of appointing and recalling the Supervisory Board Members

The Supervisory Board of the Company consists of 5 to 7 members appointed and recalled by the General Meeting.

The term of office of the Supervisory Board is two years. The mandates of the Supervisory Board Members expire on the day on which the Annual General Meeting approves the Company financial statements for the last full reporting year of the term of the Supervisory Board. If during the term of office of the Company Supervisory Board a supplementary or an extending election has been held, the mandate of the newly appointed member of the Supervisory Board shall expire simultaneously with the mandates of the remaining members of the Company Supervisory Board.

The candidates announced for the Supervisory Board Members shall be justified, such as to enable the General Meeting to make an educated selection. Members of the Supervisory Board are selected on the basis of their proper education and life experience, which makes them competent to properly assess the operation of the Company and duly perform their functions at the Supervisory Board and Audit Committee, and such that at least two Members of the Board are independent of the Company, its shareholders or employees.

The Supervisory Board Members are entitled to remuneration according to the principles determined by the General Meeting.

The Supervisory Board Members select the Chairman from among themselves to manage the works of the Supervisory Board. The Supervisory Board may also appoint Deputy Chairmen and a Secretary.

Competencies of the Supervisory Board

The Supervisory Board exercises ongoing supervision of the Company activities in all aspects. The competencies of the Supervisory Board include, among other things:

- assessment of the financial statements and the Management Board report with regard to their conformity with the books of account and evidence documents as well as with the actual state of affairs, and evaluation of the Management Board proposals regarding profit distribution or loss coverage as well as submission to the General Meeting of annual reports on the results of such evaluation,
- approval of annual financial plans of the Company and supervision of their execution,
- selection of a statutory auditor to audit the Company financial statements,
- granting consent to purchase or sale of real estate, perpetual usufruct rights or share in real estate of the value exceeding 10% of the Company equity, calculated in reference to the latest balance sheet of the Company approved by the General Meeting, unless such

purchase has been stipulated in the annual financial plan of the Company approved by the Supervisory Board,

- granting consent to a sale of the Company assets, the value of which exceeds 10% (ten per cent) of the total value of the Company equity, calculated in reference to the latest balance sheet of the Company approved by the General Meeting, unless the sale has been stipulated in the annual financial plan of the Company approved by the Supervisory Board,
- granting consent to assume a liability or dispose of rights which – within one or several interrelated legal transactions – exceeds 10% of the Company equity, calculated in reference to the latest balance sheet of the Company approved by the General Meeting, unless such liability or disposal has been stipulated in the annual financial plan of the Company approved by the Supervisory Board,
- granting consent to the payment to the shareholders of an advance on account of the expected dividend,
- appointing and dismissing the whole Management Board of the Company or its individual members,
- establishing the rules and the terms and conditions of remuneration for the Members of the Management Board as well as the value of the remuneration,
- representing the Company in any contracts concluded between the Company and a Member of the Management Board, and in any disputes between the Company and such a person.

The Supervisory Board may examine any and all activities of the Company, request any reports, explanations and information from the Management Board and employees, check the books of account and evidence documents (including the financial documents), request access to all premises of the Company (§ 10 of the By-law of the Supervisory Board), whereas in their activities the Supervisory Board Members are obliged to keep in mind the good name and interest of the Company (§ 6.1 of the By-law of the Supervisory Board).

The work of the Supervisory Board is carried out in the form of meetings, control activities and participation in the work of the Company governing bodies.

Composition of the Supervisory Board

From 1 January 2020 to 24 September 2020 the Supervisory Board consisted 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.

In 24 September 2020 the Annual General Meeting of the Company appointed the Supervisory Board of the 9th term. The number of Members of the Supervisory Board of the 9th term was set at 6 persons.

The following persons were appointed as Members of the Supervisory Board of the 9th term:

- Roman Sobiecki
- Michał Słomkowski
- Wiesław Wasilewski
- Marek Rocki
- Janusz Pierun
- Ahmed Khalil.

Committees of the Supervisory Board

In accordance with the legal regulations, an Audit Committee is operating within the Supervisory Board of Makarony Polskie SA.

At the moment, the Company has not planned to appoint other committees at the Supervisory Board than those required by the legal regulations. It is so because of the status of the Company, the shareholding structure, as well as organizational and economic considerations, which include the necessity of providing additional administrative and legal servicing of such committees.

AUDIT COMMITTEE

The Audit Committee of Makarony Polskie SA operates based on the binding legal regulations as well as the By-law of the Audit Committee adopted by virtue of Resolution No. 5 of the Supervisory Board of Makarony Polskie SA of 18 October 2017.

The membership of the Audit Committee is determined by the Supervisory Board, which also appoints the Audit Committee members and appoints the Committee chairperson. The minimum membership of the Audit Committee is 3 people.

The Audit Committee members are appointed from among the Supervisory Board, such that:

- most of the Audit Committee members, including the chairperson, are independent,
- there is at least one member of the Audit Committee who possess knowledge and skills in accounting or auditing financial statements, and at least one member who possesses knowledge and skills in the sector in which the Company operates.

The mandates of the Audit Committee members expire as at the date of expiry of the Supervisory Board mandates. Each of the Audit Committee members may also be recalled at any time by the Supervisory Board.

In case a mandate of a Member of the Supervisory Board appointed for the Audit Committee expires before the expiry of the term of the whole Supervisory Board, or if the Member resigns from his function in the Audit Committee, the Supervisory Board supplements the membership of the Committee by appointing a new member of the Committee for the period ending at the expiry of the Board term.

Specifically, the tasks of the Audit Committee include:

- monitoring of:
  - the Company financial reporting processes,
  - the efficiency of internal control and risk management systems as well as internal audit, also in reference to financial reporting,
  - the financial audit activities performance, and specifically auditing the financial statements of the Company by an audit firm, in consideration of any conclusions and determinations of the Audit Supervision Commission on the basis of control carried out at the respective audit firm;
- control and monitoring the independence of the statutory auditor and the audit firm carrying out the audit of the Company financial statements (specifically if the audit firm also provides the Company with non-audit services);
- informing the Supervisory Board about the results of the Company financial statements and explanation of how the audit contributed to the fairness of the financial reporting of the Company, and what was the role of the Committee in the audit process;
- assessing the independence of the statutory auditor and the audit company carrying out the audit of the Company financial statements, and expressing consent to the provision by them of any allowed non-audit services to the Company;
- preparing a policy of selection an audit firm to carry out the Company financial statements audit;
- preparing a policy of providing the allowed non-audit services to the Company by the audit firm carrying out the audit of the Company financial statements, the entities related to that audit firm or a member of the audit firm's network (within the meaning of generally binding regulations);
- preparing a procedure of selection of an audit firm to carry out the audit of the Company financial statements;
- presentation to the Supervisory Board of a recommendation regarding the selection of a statutory auditor or audit firm to carry out the audit the Company financial statements. The recommendation should comply with the requirements of Regulation No. 537/2014 and the Act on Statutory Auditors;

- providing the Supervisory Board and the Management Board with recommendations aimed at ensuring the fairness of the Company financial reporting process.

When performing its work, the Audit Committee may:

- request the provision of information, explanations and documents needed for the performance of the tasks, without the intermediation of the Supervisory Board,
- request the key statutory auditor to discuss with the Audit Committee or the Management Board the major issues resulting from the audit, which have been mentioned in the additional report referred to in Article 11 of Regulation No. 537/2014.

Composition of the Audit Committee

From 1 January 2018 to the date of publication of this report, the Audit Committee consisted of:

- Roman Sobiecki – Chairman of the Audit Committee (independent member),
- Michał Słomkowski – Member of the Audit Committee (independent member),
- Wiesław Wasilewski – Member of the Audit Committee (independent member).

On 3 December 2020, in connection with the end of the 8th term of the Supervisory Board, the Company's Supervisory Board appointed the Audit Committee of a new term with an unchanged composition.

In accordance with the legal regulations, the Audit Committee members possess:

- knowledge and skills in accounting or auditing financial statements – Mr. Michał Słomkowski and Mr. Roman Sobiecki,
- knowledge and skills in the sector in which the Company operates – Mr. Wiesław Wasilewski and Mr. Roman Sobiecki.

Mr. Roman Sobiecki is a Professor of Economy at the SGH Warsaw School of Economics, where he has been working since 1978, and currently at the Institute of Markets and Competition. Since 2012 he has been dean of the Collegium of Business Administration of the Warsaw School of Economics. In the years 1996-2005 he was and since 2012 until now he has been a member of the Senate of the Warsaw School of Economics. In the years 1996–1997 he was Advisor to the Political Cabinet of the Minister of State Treasury. In the years 1999–2005 was a member of the Team of Consultants for the President of the Republic of Poland for Agriculture and Rural Development. In the years 2013–2015 he was chairman of the National Council of Entrepreneurship at the Ministry of Economy.

Mr. Roman Sobiecki is an author and co-author of over 60 books and articles in micro- and

macroeconomics, globalization and entrepreneurship (including the book entitled "Globalization and the Functions of Polish Agriculture"). He is also author and co-author of academic textbooks for students in the theory of competition and the strategy of competing companies, plus textbooks and curricula for teaching economics at secondary and professional schools.

Mr. Michał Słomkowski is a graduate from the bachelor's course in BBA Finance and Accounting and the master's course in Finance and Accounting, major in Company Finance, of the Kozminski University in Warsaw. He also made a post-graduate course organized by the Institute of Spatial Management and Housing and Kozminski University in Real Property Management. He is experienced in managing work effectiveness and labor costs.

Mr. Wiesław Wasilewski graduated from the Higher School of Engineering in Radom, Faculty of Economics and Organization (but has not submitted the master's thesis for defense). Since 2002 Mr. Wiesław Wasilewski is the owner of an advisory company Big-Pol Fundusze Pomocowe [Support Funds] specializing in gaining EU subsidies and investment advisory services for food processing companies. Most of the projects of the company carried out so far referred to new technologies and energy efficient operation of food processing companies. Moreover, several process and products innovations have been implemented.

Activities of the Audit Committee in 2020 and in reference to 2020

In the reporting year 2020, the Audit Committee held 3 meetings convened by the Audit Committee Chairman and devoted to the performance of duties by the Committee, and specifically referring to:

- acceptance of the annual report on the activities of the Audit Committee in 2019,
- cooperation with the statutory auditor during the audit of the financial statements for the reporting year 2019, as well as controlling and monitoring the independence of the statutory auditor and the audit firm auditing the financial statements of the Company,
- commencing the procedure for audit firm selection,
- presenting to the Supervisory Board a recommendation regarding the audit firm selection for reviewing the semi-annual reports and auditing the annual financial statements of Makarony Polskie SA and Makarony Polskie Group of Companies in the reporting years 2020-2022,
- monitoring of financial reporting processes in the Company, effectiveness of internal control systems and risk management systems, as well as internal audit, including within the scope of financial reporting,
- informing the Supervisory Board about the results of the audit of the Company's financial statements and explaining how this audit contributed to the fairness of

financial reporting in the Company and what the role of the Audit Committee in the audit process was,

- assessing the independence of the statutory auditor and the audit firm carrying out the audit of the financial statements of the Company.

After the end of the reporting year 2020, the Audit Committee held 2 meetings convened by the Audit Committee Chairman and devoted specifically to:

- cooperation with the statutory auditor during the audit of the financial statements for the reporting year 2020,
- preparing information for the Supervisory Board about the results of the Company and the Makarony Polskie Group financial statements audit and explanation of the way in which the audit contributed to the fairness of financial reporting, and the role played by of the Committee in the audit process,
- acceptance of the annual report on the activities of the Audit Committee in 2019.

The object of the ongoing activities of the Audit Committee is to monitor the works related to the process of preparing and auditing the financial statements of the Company. The Audit Committee monitored the correctness of preparing the financial statements by the Company for the reporting year 2020, cooperating in that regard with the Management Board of the Company and remaining in contact with the statutory auditor carrying out the audit of the financial statements, i.e. BDO Spółka z ograniczoną odpowiedzialnością Sp.k. with its registered office in Warsaw.

In the opinion of the Audit Committee, the internal audit activities at the Company were fulfilled by the Management Board, the managerial staff and other employees in accordance with their respective duties. The internal audit mechanisms cover the method of performance of tasks by the employees, and specifically the rights, competencies and compliance of the carried out activities with the principles and procedures developed for the particular areas of operation. These mechanisms are of control nature and are incorporated both in the internal normative acts and procedures and in the ERP class integrated IT system. The risk areas important for the Company were properly identified for the purpose of ensuring the performance of the strategic objectives assumed by Makarony Polskie SA. The Management Board, together with the managerial staff, review and update on the current basis the risk factors accompanying the operations of the Company which may have impact on the financial and market standing of the Company.

Policies regarding the selection of a statutory auditor and cooperation with the auditor, as prepared by the Audit Committee

On 18 October 2017, the Audit Committee passed:

- the "Policy of selection of an audit firm to carry out the statutory audit of the financial statements of Makarony Polskie SA with its registered office in Rzeszów and the Makarony Polskie Group", which reads that the audit firm is selected in accordance with the following principles:
  - by the Company Supervisory Board, upon recommendation of the Audit Committee,
  - in due advance, such that the agreement on the financial statements audit may be signed at the date enabling the audit firm to participate in the major assets inventory taking,
  - with particular attention paid to the independence of the audit firm and the statutory auditor; in that regard – when presenting its recommendation to the Supervisory Board of the Company – the Audit Committee considers the scope of the services performed by the audit firm and the statutory auditor within the last five years preceding the selection of the audit company,
  - control and monitoring by the Audit Committee of the statutory auditor and audit firm independence at each stage of the procedure of the audit firm selection or carrying out the audit and review of the aforesaid financial statements,
  - the selection of the audit firm is made in consideration of the experience of that firm in carrying out statutory audits of financial statements of public-interest entities, including companies listed on the Warsaw Stock Exchange,
  - the selection of the audit firm is made in consideration of the principle of audit firm and key statutory auditor rotation, such that the maximum time of uninterrupted duration of orders regarding statutory audits performed by the same audit firm or an audit firm related to that audit firm, or any member of the audit firm's operating in the European Union member states, must not exceed five years, whereas the key statutory auditor cannot carry out the statutory audits at the Company for a period longer than five years (in such case the key statutory auditor may carry out the statutory audit at the Company again after the lapse of at least three years of the end of the previous statutory audit).
  - the first agreement on the financial statements audit is concluded with the audit firm for a period not shorter than two years, with the possibility of extension for further at least two-year periods, in consideration of the principles of rotation of the audit firm and the key statutory auditor, as provided by the legal regulations,

- the "Policy of providing the allowed non-audit services by the audit firm carrying out the audit of the financial statements of Makarony Polskie SA with its registered office in Rzeszów and the Makarony Polskie Capital Group, or by entities related to that audit firm or a member of the audit firm's network", which reads that:
  - the statutory auditor or the audit firm that carry out the statutory audit of the Company, or an entity related to that audit firm, or any member of the statutory

auditor's or the audit firm's network, do not provide directly or indirectly to the Company or its related companies any prohibited non-audit services or financial review procedures.

- the prohibited services do not include those identified in Article 136.2 of the Act of 11 May 2017 on Statutory Auditors, Audit Companies and Public Supervision (Journal of Laws of 2017, item 1089),
- the provision of permitted services is possible solely in the scope which is not related to the tax policy of the Company, upon assessment by the Audit Committee of threats and independence security measures, and obtaining the consent of the Audit Committee,
- in the respective cases, the Audit Committee issues guidelines regarding such services.

Consent of the Audit Committee to the provision of additional services by the statutory auditor

In the reporting year 2020 and by the publication of this report, the audit firm carrying out the audit of the financial statements of Makarony Polskie SA did not provide any permitted non-audit services to the companies of the Makarony Polskie Group.

Recommendation of the Audit Committee regarding the selection of an audit firm

In the financial year 2020 Makarony Polskie SA selected a statutory auditor for the years 2020-2022. The Audit Committee carried out a selection procedure meeting the applicable criteria and then, presented to the Supervisory Board its recommendation regarding the selection of an audit firm for auditing.

Supervisory Board Members Remuneration Policy

In accordance with the Company Articles of Association, the Supervisory Board Members receive remuneration in the value determined by the General Meeting.

In 2020 the Supervisory Board Members receive remuneration for each Supervisory Board meeting in which they participated in accordance with the system of remuneration for the Supervisory Board of Makarony Polskie SA adopted

- by way of Resolution No. 22 of the Annual General Meeting of 28 June 2018 for the meetings of the Supervisory Board of the 8th term which took place in the period from 1 January to 24 September 2020,

- by way of Resolution No. 25 of the Annual General Meeting of 24 September 2020 for the meetings of the Supervisory Board of the 9th term which took place in the period from 24 September 2020.

The information concerning the remuneration paid to the Members of the Company Supervisory Board is presented in the table below, as well as in Note No. 39 to the consolidated financial statements and Note No. 38 to the separate financial statements.

(in PLN '000)	Function	For the period from 01.01 to 31.12.2020	For the period from 01.01 to 31.12.2019
Roman Sobiecki	Chairman of the Supervisory Board of the 8th and 9th term	26	26
Ahmed Khalil *	Deputy Chairman of the Supervisory Board of the 9th term	8	0
Janusz Pierun *	Supervisory Board Member of the 9th term	7	0
Wiesław Wasilewski	Supervisory Board Member of the 8th and 9th term	21	21
Marek Rocki	Supervisory Board Member of the 8th and 9th term	21	21
Michał Słomkowski	Supervisory Board Member of the 8th and 9th term	21	21
Samer Abdelfatah Mohamed Elwaziri **	Deputy Chairman of the Supervisory Board of the 8th term	16	24
Total		**120**	**113**

* The Members of the Supervisory Board, Ahmed Khalik and Janusz Pierun were appointed as members of the Company's Supervisory Board on 24 September 2020.

** The Supervisory Board Member, Samer Abdelfatah Mohamed Elwaziri was the member of the Company's Supervisory Board until 24 September 2020.

There are no liabilities at the Company related to the payment of pensions or other similar payables to the former supervisory staff, or any liabilities incurred in relation to such pensions.

Supervisory Boards of the subsidiaries

The Group subsidiaries have no Supervisory Boards. The governing bodies of the subsidiaries of Stoczek Natura Sp. z o.o. and MP Trade Sp. z o.o. are the General Meeting and the Management Board.

Management Board

Principles of Management Board Members appointment and dismissal

In accordance with the Articles of Association of Makarony Polskie SA, the Management Board of the Company consists of one to three members, including the President of the Management Board and Vice President of the Management Board who are appointed and recalled by the Supervisory Board.

The term of office of the Management Board Members is two years. The Management Board Members may be appointed for the consecutive two-year terms of office. The mandates of the Management Board Members expire pursuant to Article 369.4 of the Code of Commercial Companies. If during the term of office of the Company Management Board a supplementary or an extending election has been held, the mandate of the newly appointed member of the Management Board shall expire simultaneously with the mandates of the remaining members of the Company Management Board.

Competencies of the Management Board

The Management Board represents the Company outside and makes decisions on all the issues which have not been reserved to the competencies of the remaining governing bodies of the Company in accordance with the Company Articles of Association and the binding laws.

The declarations of will on behalf of the Management Board may be made by:

- one person in case of a Management Board consisting of one member,
- two Management Board Members acting jointly or one Management Board Member acting jointly with a Proxy in case of a Management Board with more than one member.

As at the date of publication of this report, the functions of the Company Proxies were fulfilled by:

- Grażyna Kozielec – from 31 May 2012
- Beata Majewska-Karp – from 31 May 2012
- Witold Żarek – from 4 March 2013
- Tomasz Blat – from 7 August 2017
- Marcin Zieliński – from 19 November 2019.

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

Composition of the Management Board

In the period from 1 January 2020 to the date of this report publication, the Management Board consisted of one person. The office of the President of the Management Board has been held by Zenon Daniłowski.

Division of duties among the Management Board Members

The Management Board of the Company consists of one person.

Management Board Members Remuneration Policy

In accordance with the Company Articles of Association, the Management Board Members receive remuneration in the value determined by the Supervisory Board. On 24 September 2020 the Annual General Meeting adopted the Remuneration Policy of the Members of the Management Board and Supervisory Board at Makarony Polskie SA which sets out the principles of determining the system of remuneration for the members of the Company's bodies.

The system of remunerating the President of the Management Board consists of a fixed part (basic salary under an employment contract) and a variable incentive part (remuneration for the fulfilment of function calculated based on the EBITDA result /operating profit + depreciation/ generated by the Company in the quarter for which the remuneration is paid, and disclosed in the published interim reports covering the respective quarter).

In the period covered with these financial statements, the Group companies concluded no contracts with the managing persons providing for a compensation should they resign from their position or should they be dismissed from the office held without important reason or should they be recalled or dismissed due to a merger of the Company by way of takeover.

In the financial year 2020, as well as in the period by the date of publication of this report, Makarony Polskie SA did not have any employee share schemes.

The information concerning remuneration paid to the Members of the Company Management Board is presented in the table below, as well as in Note No. 39 to the consolidated financial statements, and Note No. 38 to the separate financial statements.

Forename and surname	Function	For the period from 01.01 to 31.12.2020		For the period from 01.01 to 31.12.2019	
		Fixed	Variable	Fixed	Variable
Zenon Daniłowski	President of the Management Board	450*	353	540*	248
	Total	**803***		**788***	

* Including the remuneration on account of acting as the President of the Management Board of MP Trade Sp. z o.o. subsidiary: PLN 30 thousand in 2020 (in the period I-III) and PLN 120 thousand in 2019 (in the period I-XII).

There are no liabilities at the Company related to the payment of pensions or other similar payables to the former managing staff or former members of the administrative bodies, or any liabilities incurred in relation to such pensions.

Management Boards of the subsidiaries

Stoczek Natura Sp. z o.o.

In the period from 1 January 2020 until 16 January 2020, the composition of the Management Boards of Stoczek Natura Sp. z o.o. 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 function of the president of the management board of Stoczek Natura Sp. z o.o. On the same day, the Meeting of Shareholders of Stoczek Natura Sp. z o.o. adopted a resolution on determining the number of members of the company's management board as one person and appointed Mr. Adam Ławnik as the president of the company's management board.

In the period from 1 January 2020 until 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.

The functions of Proxies of Stoczek Natura Sp. z o.o. are fulfilled by:

- Alicja Hinz – from 5 October 2001,
- Jerzy Krzyżowski – 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.

During the reporting year from 17 January 2020 to 10 July 2020 the function of Proxy of the Company was fulfilled by Mr. Dariusz Cylka.

MP Trade Sp. z o.o.

As at 31 December 2020 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 2020 and the date of this report publication.

Other information

Information concerning cooperation with the statutory auditor

The Supervisory Board of Makarony Polskie SA selected BDO Spółka z ograniczoną odpowiedzialnością sp.k. (formerly: BDO Spółka z ograniczoną odpowiedzialnością) with its registered office in Warsaw, as the statutory auditor to review the financial statements of the Makarony Polskie Group companies for the first half of the reporting year and to audit the financial statements of the Makarony Polskie Group companies for the reporting year, in the years 2020–2022.

BDO Spółka z ograniczoną odpowiedzialnością sp.k. is entered in the list of audit firms kept by the National Council of Statutory Auditors (KRBR) under the number 3355, as well as the Register of Entrepreneurs of the National Court Register (KRS), kept by the District Court for the Capital City of Warsaw, 13th Commercial Division, KRS number 0000729684.

The companies of the Makarony Polskie group have previously availed of the services of BDO Spółka z ograniczoną odpowiedzialnością sp.k. as regards auditing the annual reports in the reporting years 2018-2019.

On 20 August 2020, Makarony Polskie SA concluded an agreement with the aforesaid auditor regarding the review of condensed financial statements for the first half of the reporting year, and audit of the financial statements of the Company and the Group for the reporting year, in the years 2020–2022.

The remuneration of BDO Spółka z ograniczoną odpowiedzialnością sp.k. on account of the audit of the financial statements of Makarony Polskie SA for the reporting year 2020 amounts to the total of PLN 114.2 thousand (PLN 37.3 thousand for the review of the separate and consolidated semi-annual financial statements; PLN 76.9 thousand for the audit of the financial statements of Makarony Polskie SA and the Makarony Polskie Group for 2019).

The remuneration of BDO Spółka z ograniczoną odpowiedzialnością sp.k. on account of the audit of the financial statements of Makarony Polskie SA for the reporting year 2019 amounts to the total of PLN 80.6 thousand (PLN 26.3 thousand for the review of the separate and consolidated semi-annual financial statements; PLN 54.3 thousand for the audit of the financial statements of Makarony Polskie SA and the Makarony Polskie Group for 2019).

The Group applies utmost effort to act in a sustainable and responsible way while pursuing its business activities.

Corporate Social Responsibility

While executing the main business target for which enterprises are being established, namely profit generation, each enterprise must be aware of the fact that it has a significant effect on its neighborhood (natural environment, people, other businesses).



Corporate Social Responsibility (CSR) is a responsible way of a company operation in social, economic, and environmental space. The CSR concept has been changing, evolving and continued to be a subject of public debate. Now, CSR is not only an idea but also an approach to management. CSR assumes the rational management of enterprise and its assets while respecting the rights of citizens and employees, as well as social coexistence.

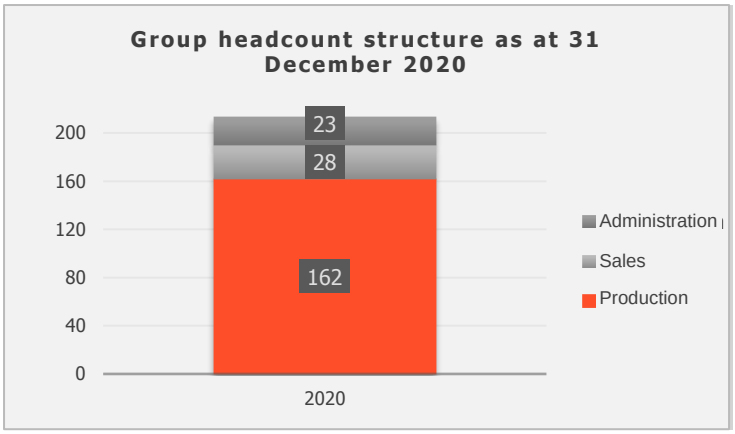
The Makarony Polskie Group applies utmost effort to follow the CSR (Corporate Social Responsibility) principles when carrying out its operating activity and accomplishing its business objectives. This concept is an important, constant and consistently developed element of the Group's identity.

Creating its development strategy and accomplishing business objectives, the Makarony Polskie Group has applied utmost effort to carry out its operating activities in consideration of the CSR principles, i.e. in caring for the needs and requirements of the broadly understood social and ecological interest of the Company environment.

Employees

The Makarony Polskie Group is consistently realizing the program of headcount optimization initiated in 2013. This program assumes stabilization of staff employed on permanent basis at the level of the necessary minimum and making the headcount of the production plants flexible by making it dependent on the size of production. The basis of the scheme is continuous care for the proper work organization (including Lean Manufacturing implementation), as well as effective use of human resources.

In accordance with the adopted policy, the Makarony Polskie Group maintained the total headcount at the level of the necessary minimum. The headcount of the Group as at 31 December 2020 was to 213 people (compared to 210 people at the end of 2019 and 186 people at the end of 2018).



Diversity policy

The HR policy of the Makarony Polskie Group focuses on keeping the best specialists and managers who, thanks to their knowledge, experience and involvement, ensure the top level of execution of the business goals of the Group entrusted to them, by which they guarantee continuing improvement of the organization and quality of the offered products and services provided. Makarony Polskie SA has not developed any formal diversity policy concerning the Company governing bodies or its key managers. The current status of the Company does not imply any duty to report that element.

HR planning and recruitment of employees

The existing "employee market" force the employers to focus on process optimization, effective use of human resources and fast reacting to changes. In order to ensure a high level of tasks and goals execution in a dynamic VUCA world, the Makarony Polskie Group has undertaken actions aimed at effective HR planning, even before a real demand in this respect occurs. The Group has implemented and carried out systematic identification of future HR needs, in close cooperation with managers of organizational units.

When recruiting and selecting candidates the Group applies utmost effort to make the recruitment process transparent, employee friendly and effective for the Company. In the decision-making process with regard to employing the candidates, the Group companies try to act in a transparent manner by taking into account their work history, seniority in their profession and education, adequately to the scope of the entrusted tasks. The Group employs women and men of various age alike, providing that they meet the subject-related criteria, and attempts to prevent any forms of discrimination.

By age and gender	Group headcount structure as at 31 December 2020		
	Women	Men	Total
18-29	17	27	44
30-49	59	56	115
50+	21	33	54

When recruiting the members of its team, the Makarony Polskie Group chooses people who are not afraid of new challenges, are ready to develop their skills on a continuing basis and willing to share their knowledge. At specialist and managerial positions, the Company prefers persons showing high professionalism, entrepreneurship, and involvement, who want to develop themselves professionally, enjoy their work and can cooperate with other people.

Taking care of its staff the Makarony Polskie Group, first of all, carries out internal recruitment due to the fact that internal promotions (both horizontal and vertical) make it possible to keep in the organization those employees who are involved, have extensive experience and the required qualifications. Should no proper candidates be found in internal recruitment, the Group carries out recruitment processes addressed to external candidates, using for that the sources of recruitment adequate to the profile of a vacant position, including but not limited to, headhunters, career offices, student placements and apprenticeships, as well as Internet portals.

The recruitment process is carried out in accordance with the principles of confidentiality and based on the internal procedures binding at the Group.

Placements and apprenticeships

The Makarony Polskie Group appreciates the value and competencies of young people as well as their enthusiasm and creativity. The Group gladly participates in various placement programmes addressed to students and graduates. It also enables secondary and higher education students to serve their apprenticeship. In 2020, 2 people took advantage of such apprenticeships.

For several years, the Makarony Polskie Group has been offering an apprenticeship program directed to young, ambitious people, graduates of universities who are making their first steps in their professional career. The program lasts 3 months and is fully financed from its own funds. The purpose of program is to facilitate the people who are entering the labor market to gain practical skills in the current business operations. The apprentices learn about the organization of the Group and the operation of its business units. The Group has planned to propose long-term employment to the best apprentices.

Training

Grupa The Makarony Polskie Group attaches great importance to the effective use of human resources. A significant element of that process is ensuring professional development to the employees and continuing improvement of their professional qualifications by way of providing them with specialist training and competencies improvement programs. Performing such activities, the Group avails mostly of external specialist training and specially prepared, closed programs for development of competencies that, in the opinion of the Group, are the best investment in the employees.

In 2020, due to epidemic circumstances, the Makarony Polskie Group reduced the number of trainings organized internally. Most of specialist, external and open trainings in which the Group's employees (at different levels) participated while updating and extending their knowledge within the scope necessary for effective performance of the position obligations, were organized online.

The Makarony Polskie Group has also supported self-education of their staff and improvement of professional qualifications, particularly in the scope of the tasks performed or planned at their positions, which is also important from the point of view of the Group

It is important to implement the acquired skills at work and share the knowledge with other team members and among the teams. Taking the above into account, when designing various forms of training, the Group uses also the approach of periodically organized internal conferences at which the Group employees become trainers or co-trainers, thus improving their own competencies and sharing their knowledge with the others.

Remuneration system

The incentive remuneration system adopted by the Group assumes that the employees receive remuneration consisting of the fixed part (basic salary) and variable part (which includes bonuses and rewards) awarded depending on their work contribution, involvement and execution of goals/tasks set for the employees by their superiors.

The basic salary is determined depending on how a given position ranks, based on work contribution, scope of responsibilities, qualifications and experience. The Group assesses the specific positions, taking care of keeping the remuneration at a competitive level, which makes it possible to recruit persons of desirable qualifications and experience, based on the best market practices.

The variable part of the remuneration depends on the level of execution of individual goals/tasks set by the superiors, involvement of specific employees, their conscientiousness and care applied in the work performed, improvement of productivity and quality of work as well as special achievements related to execution of the tasks set by the superiors. The

purpose is to motivate the employees to have very good work results compliant with the business interest of the Group.

The remuneration system implemented at the Group ensures effective support for business activities and execution of the strategy of development. The variable part of the remuneration system ensures its flexibility, ability to adjust to the needs of the organization. Such a remuneration system allows to effectively reflect the goals of the Group in the goals of the managers, and then delegating them downwards onto the employees.

In 2020, there were no significant changes in the remuneration system adopted at the Group.

OSH

Being a responsible employer, the Makarony Polskie Group also takes care to guarantee safe conditions of work to its employees. The particular companies of the Group have their own OSH policies implemented. In accordance with the regulations binding in this respect, in order to protect the health and life of the employees, the Group companies provide OSH training, ensure pre-employment and interim medical checks, hire employees of the required qualifications and equip them with personal protective equipment.

In 2020, there were reported three minor accidents at work at the Group.

In these times of constant uncertainty connected with the pandemic, the Makarony Polskie Group is trying to ensure the sense of security for its employees and adjust the working conditions to the changing environment:

- teams have been established, their aim is to constantly monitor the threats resulting from the epidemic situation and to support both the employees and the Management Boards of the Group's companies in maintaining the highest safety standards at workplace,
- agreements have been concluded with medical firms which as part of identification of the higher epidemic risk at the Group's particular locations carry out the preventive testing actions for the presence of Sars-Cov-2 virus among employees,
- formal and practical solutions have been prepared which allow to fulfill the obligations remotely, with regard to organizational units where such a possibility occurs, which in the event of epidemic threat increase ensures the continuity of task performance and at the same time, gives a sense of security for the employees.

Natural environment

The Group has consistently been trying to minimize its negative impact on the natural environment in each area of its operations by looking for environmentally friendly solutions.



The activities of the Group focus, among other things, on rational consumption of water and energy, caring for carbon dioxide emissions limitation, minimization of the quantity of sewage and waste produced by means of continuing improvement of manufacturing processes, use of modern, energy-efficient and high-performance engineering lines, taking care of good condition of machines and equipment. The Group companies have been applying utmost care in segregation of waste to the specific fractions. The Group has been carrying out education and information actions in order to raise the staff environmental awareness.

In 2020, Makarony Polskie SA carried out investment projects aimed at improving the effectiveness and energy-consumption of pasta manufacturing processes, e.g. installation of modern production lines and installation of the precise system of liquid egg dosing in the plant in Rzeszów, modernization of technological lines for rolled pasta production, construction of a drying tunnel for go-through drying of pasta and installation of the high-efficiency system of industrial ventilation in the plant in Częstochowa.

Stoczek Natura Sp. z o.o. also carries out investments aimed at modernization and automation of production processes in order to optimize them. The Company is carrying out a project of replacing a current coal-fired boiler room with a modern gas boiler room which is planned for the years 2020-2021.

Among the environmental protection activities undertaken by the Group, also emphasized should be the systematic disposal of electric and electronic waste as well as segregation and recycling of production waste.

Market

The trust placed by the customers in the Makarony Polskie Group is a stimulus to continuously modernize the manufacturing plants, it has state-of-the-art production lines and comprehensive systems to control the manufacturing processes. The Group has also been investing in the acquisition and implementation of modern technologies, which is supported by the currently pending EU projects.

Caring for its development, Makarony Polskie SA has launched a Research and Development Centre for the Pasta Industry where works are carried out on innovative products, among others, health-promoting products which will ultimately enrich the Company's portfolio.

The main objective of the projects carried out by Stoczek Natura Sp. z o.o. is to improve competitiveness and innovativeness of the company on the domestic and foreign markets, by way of introducing technological and product innovations (such as health-promoting products addressed to the new group of consumers).

In the first stage, in Q.1, 2020, the company offered 9 new products on the market in a dynamically developing product category, i.e. ready-made dishes on trays. These dishes were positively received by customers.

Each production process taking place at the manufacturing plants of the Makarony Polskie Group is strictly supervised by the in-house Quality Control Teams that take care of products conformity with the requirements of food standards and high quality standards of the Company. Both raw materials and finished products are scrutinized at the in-house laboratories and, periodically, they are also examined at independent accredited external laboratories.

Makarony Polskie SA and Stoczek Natura Sp. z o.o. have implemented and certified a quality system that meets the requirements of IFS (International Food Standard) and BRC (British Retail Consortium), to be in compliance with the legal requirements regarding food safety.



The Group systematically develops its cooperation with scientific institutes, R&D laboratories, and suppliers of raw materials, machines and packaging.

The achievements of the Group have been appreciated, which is expresses in a number of awards and special mentions granted to the Group and its products in 2020.

Złoty Paragon 2020 [Golden Receipt] award for Kluseczki 2-jajeczne [2-egg pasta] of Makarony Polskie



Złoty Paragon Nagroda Kupców Polskich [The Golden Receipt competition – the Polish Merchants' Award] is an award granted by the owners and managers of convenience stores from all over Poland. The competition awards these products and services which affect the development of retail trade in Poland in a special way.

In the 10th edition of Złoty Paragon Nagroda Kupców Polskich 2020 in the Pasta category, Makarony Polskie's Kluseczki 2-jajeczne was granted an Award.

Konsumencki Lider Jakości - Debiut Roku 2020 [The Consumer Quality Leader – Debut of the Year] for the SoFood brand in the category of ready-made dishes



The SoFood brand received a positive opinion of the competition jury and gained the possibility to use the emblem Konsumencki Lider Jakości - Debiut Roku 2020.

The main evaluation criteria were related to: quality, convenient and fast form of meal preparation, current food trends and market needs. When evaluating the quality, first of all, the product ingredients and nutritional values were analyzed. The trend of being natural is very strong on the market, also the consumers' awareness is increasing, they pay more attention to the analysis of ingredients, they can read labels, they do not want any complicated recipes or artificial enhancement. They are aware that a balanced diet has a direct impact on how they feel and on the proper functioning of their body, and therefore, their comfort of life. The jury appreciated that the SoFood brand meets these expectations.

Certifikaty "Dobry Produkt" [Good Product Certificates] 2020 for SoFood dish, Tofu Bulgogi with lentil and rice



Brave, original and ahead of the needs of their markets – these are the features of the companies and products which are awarded in the competitions: Certyfikaty Dobry Produkt 2020 and Food & Retail Star 2020, and Nagrody Rynku Spożywczego 2020 [Food Market Awards]. Nagrody Rynku Spożywczego are a sign of appreciation for those who support positive changes in the food industry and trading.

SoFood dish, tofu bulgogi with lentil was awarded Certyfikat Dobry Produkt 2020 in the category of New Product.

Community

The Makarony Polskie Group attempts to actively participate in the life of local communities in which it is present on a daily basis due to the location of its production plants and sales offices.

Charity is one of the areas of the Makarony Polskie Group activities within the CSR projects, by way of providing support to public benefit institutions and foundations, as well as participation in charity projects.

Moreover, the Group has also actively supported the actions and initiatives for the development of culture, education and sports. It has also been engaging in community activities.

Cooperation with schools and universities

The Group companies have established long-term relationships with universities. For instance, Makarony Polskie SA cooperates with the University of Rzeszów in the field of R&D and with the Poznań University of Life Sciences, whereas Stoczek Natura Sp. z o.o. cooperates with the University of Life Sciences in Lublin.

Charity activities

For many years, the Group has carried out charity activities of various kind at local and national level, providing support to children in need (Christmas campaigns and St. Nicholas' Day events, support of recreation during summer holidays), hospices, social aid centers, foundations, scouting and guiding associations and schools.



In 2020, the Makarony Polskie Group engaged in the campaign #GotowiDoPomocy [Ready to help] organized by Legia Warszawa SA aimed at product support in terms of preparing meals for seniors in Warsaw during COVID-19. The Group donated about 1 ton of pasta and about 300 kg of vegetable preserves under the Tenczynek brand.

The Group provided a product support for the campaign "Przedświąteczna pomoc Polakom na Wschodzie" [Pre-Christmas help for the Poles in the East] organized by Fundacja Polskiego

Godła Promocyjnego "Teraz Polska" [the Polish Promotional Emblem Foundation "Poland Now"] and KB Folie Polska company (the winner of "Teraz Polska" competition), in cooperation with the Office of the President of the Republic of Poland, aimed at collection of gifts for Polish families, especially food products, vitamin products, sanitary products, domestic detergents, educational materials, learning aids.

The Makarony Polskie Group also cooperated with other organizations such as Sovereign Military Order of Malta (as regards organization of the 6th edition of Opłatek Maltański Rzeszów 2020 [Maltese Wafer] and St. Brother Albert's Aid Society.

For a few years, the Group companies have been actively involved in various initiatives of the Rzeszowskie Hospicjum dla Dzieci [Rzeszów Hospice for Children], e.g. St. Nicholas' Day events, gifts for kids staying at the hospice and for their brothers and sisters on the Children's Day.

Patronage and sponsoring of culture and sports

The Makarony Polskie Group has been a patron of cultural and sports events, both on Poland-wide and local level.

In 2020 the competition jury of the 10th edition of Lider Regionu competition [Region Leader] awarded Makarony Polskie SA with the title of the Ambassador of the Podkarpackie Region. The competition is regularly organized by Gazeta Codzienna Nowiny [Daily newspaper]. The companies, institutions and local governments which have made a special contribution to the development of the Podkarpackie region are awarded the Region Leader Statuettes as a sign of appreciation and gratitude for their engagement in work for the Podkarpackie community and confirmation of the highest quality of goods produced and services provided.



In 2020 the Group got involved in such initiatives as:



The sponsoring of the MMA show Rzeszów Carpathian Warriors VIII Poland vs. France organized in February 2020 in Rzeszów, including the fights in three forms: MMA, K1 and Boxing, aimed at both supporting young talents and promoting healthy lifestyle.



The sponsoring of the 16th International Song Festival "Carpathia Festival". An international event which takes place every year in Rzeszów. The festival has promoted many of the current stars of the vocal stage and continues to be very popular. The event is organized by Rzeszów City Hall, Centrum Sztuki Wokalnej [Vocal Arts Centre] in Rzeszów and Estrada Rzeszowska. The main award for the winner is funding the release of the music album or costs of organizing a concert tour, invitation to the concert in the next edition of the Festival and a statuette.



Sponsoring of the Mother's Day and Children's Day taking place at the market square in Rzeszów and organized by the Caritas Foundation of the Rzeszów Diocese.



The sponsoring of the seminar-concert "Bezpieczne Miasto" [Safe City] organized by the Biuro Organizacyjne „Zespół" [Organizational Office "Team"] in cooperation with the Provincial Police Headquarters in Rzeszów. The event aimed at educating local community in terms of protection against cybercrime and ensuring online safety. An integral part of the event was also a cultural part consisting of Krzysztof Daukszewicz's concert.



Ongoing sponsoring by Makarony Polskie SA of the sports activities of Anna Kubiak, the World Champion in taiji forms. In addition to national competitions, as a member of the Polish National Team, she represents our country in various international competitions, including the European and World Championships.

Ongoing sponsoring of the beach volleyball team: Chiniewicz/Jaroszczak Beach Volleyball Team, which finished 2020 season in 9th place in Poland.



Declarations by the Management Board

Declaration with regard to fairness of the consolidated financial statements

The Management Board of Makarony Polskie SA declares that according to its best knowledge, the annual consolidated financial statements of the Makarony Polskie Group for the reporting year ended on 31 December 2020 as well as comparative data have been prepared in accordance with the binding accounting principles and reflect in a true, fair and transparent manner the assets, financial standing and financial result of the Makarony Polskie Group.

Declaration with regard to fairness of the separate financial statements

The Management Board of Makarony Polskie SA with its registered office in Rzeszów declares that according to its best knowledge, the annual separate financial statements of Makarony Polskie SA for the reporting year ended on 31 December 2020 as well as comparative data have been prepared in accordance with the binding accounting principles and reflect in a true, fair and transparent manner the assets, financial standing, and financial result of Makarony Polskie SA.

Declaration with regard to fairness of the report on the operations of the Company and the Makarony Polskie Group

The Management Board of Makarony Polskie SA declares that according to its best knowledge, the report of the Management Board on the operations of Makarony Polskie SA and the Makarony Polskie Group in the reporting year 2020, ended on 31 December 2020, comprises a true image of the development, accomplishments and standing of the Company and the Group, including a description of basic threats and risks.

Declaration regarding the selection and the procedure of selection of an audit firm

Zarząd Based on the declaration of the Supervisory Board of Makarony Polskie SA with regard to the selection of an audit firm to carry out the audit of the annual separate financial statements of Makarony Polskie SA and consolidated financial statements of the Makarony Polskie Group for the reporting year 2020, ended on 31 December 2020, the Makarony Polskie SA Management Board informs that:

1. the audit firm BDO Spółka z ograniczoną odpowiedzialnością sp.k. with its registered office in Warsaw, was selected to audit the annual financial statements of Makarony Polskie SA and the consolidated financial statements of the Makarony Polskie Group, in accordance with the legal regulations, including those applicable to the selection and the procedure of selection of an audit firm,
2. the selected audit firm and the members of the audit team fulfilled the requirements for preparing an impartial and independent report on the audit of the annual financial statements, in accordance with the binding regulations, the professional standards, and the principles of professional ethics,
3. Makarony Polskie SA has complied with the binding legal regulations applicable to audit firm and key statutory auditor rotation, as well as the binding periods of grace,
4. Makarony Polskie SA has implemented policy with regard to an audit firm selection, as well as the policy of providing to Makarony Polskie SA by the audit firm, an entity related to that audit firm, or any member of the audit firm's network, of additional non-audit services, which includes services conditionally exempt from the ban to provide services by the audit firm.

Approval of the financial statements

This report of the Management Board on the operations of Makarony Polskie SA and the Makarony Polskie Group in the reporting year 2020 was approved for disclosure by the Management Board of the Parent Company on 15 April 2021.

Zenon Daniłowski
President of the Management Board

Information about the Company

Makarony Polskie SA
with its registered office in Rzeszów
at ul. Podkarpacka 15A; 35-082 Rzeszów

www.makarony.pl

The Company was registered by the District Court in Rzeszów, 12th Commercial Division of the National Court Register, on 5 July 2004, under the number 0000212001.

Share capital: PLN 27,750,213 (paid up in full).

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Please contact us at:

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The source of data in this report is the Makarony Polskie Group, unless otherwise specified.