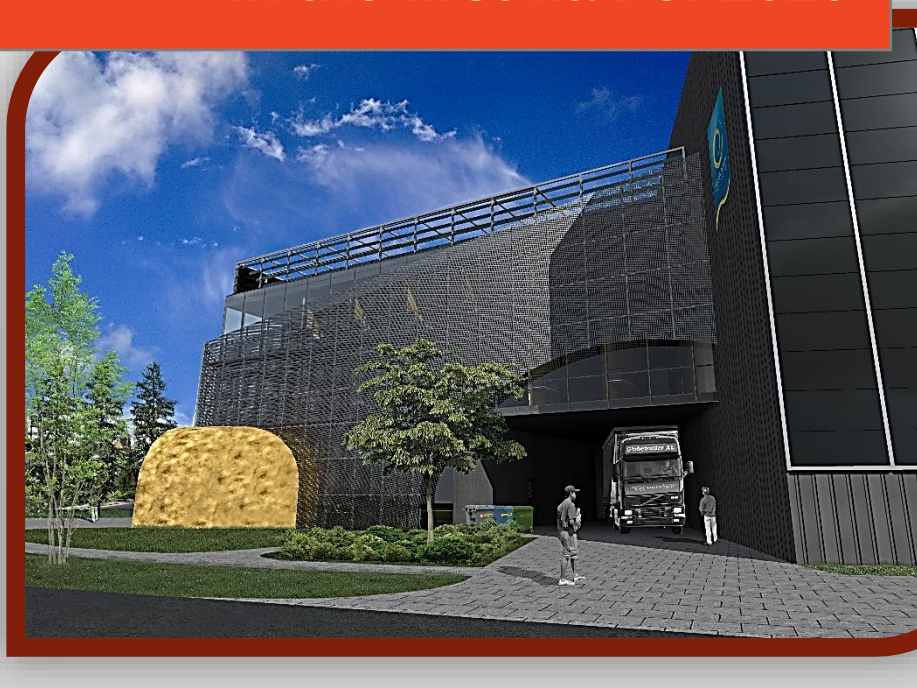
# Management Board Report on the Operations of the Makarony Polskie Group in the first half of 2020



Rzeszów, 24 September 2020

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*In the first half of 2020, the Makarony Polskie Group achieved total sales revenues of PLN 100.5 million, net profit of PLN 4.0 million, while EBITDA reached PLN 9.7 million.*

# Introduction



Dear Sirs,

Dear Shareholders,

I present to you the Report of the Makarony Polskie Group for the first half of 2020. During this period, our Group achieved total sales revenue of PLN 100.5 million, net profit of PLN 4.0 million, and EBITDA of PLN 9.7 million.

The Management Board consistently conducts the policy of increasing the company's value through both quantitative and qualitative actions. In the first half of 2020, the net profit per share amounted to PLN 0.43 vs. PLN 0.38 in the first half of 2019, and the book value of one share was PLN 9.08 vs. PLN 8.65 at the end of 2019.

I encourage you to read the full report.

Yours faithfully,

*Zenon Daniłowski*
*President of the Management Board*

*The Makarony Polskie Group consists of three companies: two manufacturing and one commercial company.*

# Characteristics of the Makarony Polskie Group

## Group organization

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, bakery pastries), processed fruit (jams, syrups, damson cheese, confectionery fillings) offered under Stoczek, Tenczynek, Męska Rzecz, DeliSusz and a new brand SoFood which represents the developmental category of ready-made dishes on trays. The products which are easy to prepare and can be placed on the so called shelf stable.

# Characteristics of the Makarony Polskie Group

Within the 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.

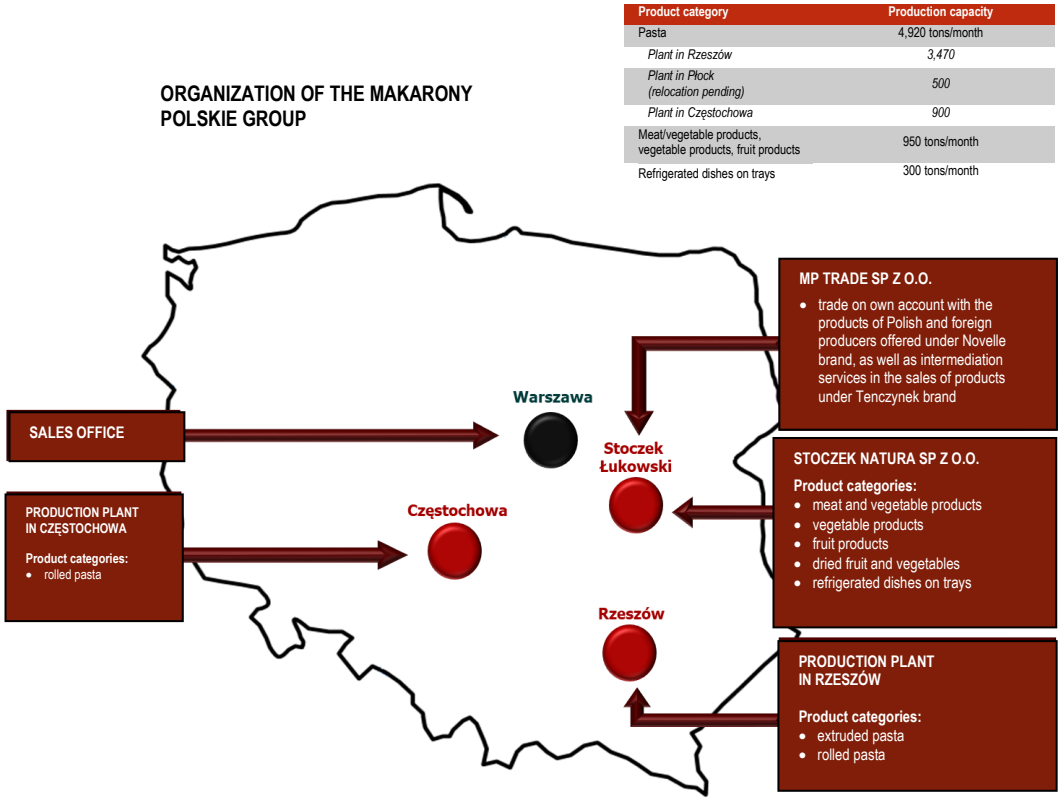
**MP Trade Sp. z o.o.** develops trade on own account with external goods of Polish and foreign producers. The Company's activity focuses on the sales of products bought from external suppliers under its own Novelle brand and granting the license for Novelle brand to Makarony Polskie SA within the scope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

During the first half of 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)* | *500* |
| *Plant in Częstochowa* | *900* |
| Meat/vegetable products, vegetable products, fruit products | 950 tons/month |
| Refrigerated dishes on trays | 300 tons/month |



## Changes in the composition of management and supervisory bodies

### Composition of the Supervisory Board

From 1 January 2020 to the date of publication of this statements the Supervisory Board is composed of:

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

#### AUDIT COMMITTEE

From 1 January 2020 to the date of publication of this report, the Audit Committee is composed 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).

As required by law, the Audit Committee Members have knowledge and skills in accounting or financial statements auditing and knowledge and skills in the industry in which the Company operates.

### Composition of the Management Board

In the period from 1 January 2020 to the date of publication of these financial statements, the Management Board of the Company has operated as a one-person Management Board. Zenon Daniłowski is the President of the Management Board.

As at the date of publication of this report, the function of proxies in the Company is performed 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 proxies granted are joint - a proxy may represent the Company only jointly with another proxy or a member of the Management Board.

*The Group's personnel policy is focused on maintaining high-class specialists and managers who, thanks to their knowledge, experience and commitment, ensure the highest level of implementation of the Group's business objectives set before them.*

### Supervisory boards of subsidiaries

There are no Supervisory Boards in the Group's subsidiaries. Bodies in subsidiaries Stoczek Natura Sp. z o.o. and MP Trade Sp. z o.o. are the General Meeting of Shareholders and the Management Board.

### Management boards of subsidiaries

As at 30 June 2020 and the date of publication of these financial statements, the management boards of subsidiaries consisted of::

- Stoczek Natura Sp. z o.o. – Adam Ławnik – President of the Management Board,
- MP Trade Sp. z o.o. – Zenon Daniłowski – President of the Management Board.

The function of the Proxy in Stoczek Natura Sp. z o.o. is fulfilled by:

- Alicja Hinz – from 05 October 2001,
- Jerzy Krzyżowski – from 17 January 2020,
- Dariusz Cylka – from 17 January 2020 to 10 July 2020.

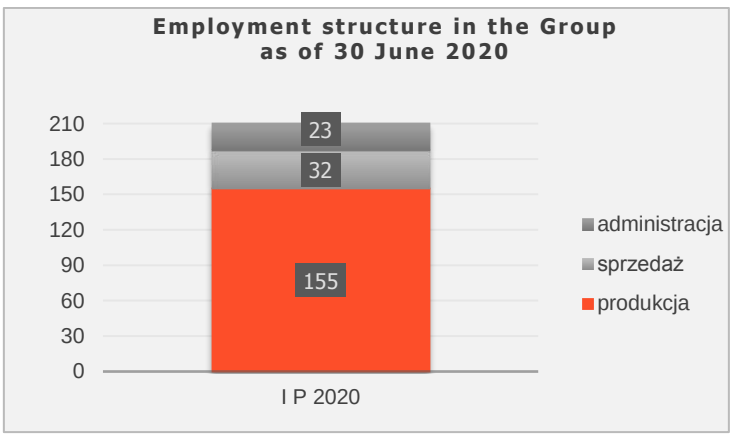
The proxies granted are joint - a proxy may represent the Company only jointly with another proxy or a member of the Management Board.

MP Trade Sp. z o.o. did not appoint proxies.

## Employees

In accordance with the adopted policy, Makarony Polskie Group consistently maintains total employment at the level of the necessary minimum, while ensuring flexibility of employment in the Production Facilities and its correlation with changes in production volume.

Employment as at 30 June 2020 in the Makarony Polskie Group totaled 210 people (vs. 207 people at the end of the first half of 2019 and 182 people at the end of the first half of 2018).



# Characteristics of the Makarony Polskie Group

The personnel policy of the Makarony Polskie Group is focused on maintaining high class specialists and managers who, thanks to their knowledge, experience and commitment, ensure the highest level of implementation of the Group's business objectives, thus guaranteeing continuous improvement of the organization and improving the quality of offered products and services.

In order to ensure the optimal level of tasks and objectives, the Makarony Polskie Group is taking steps towards effective human resource planning, even before actual demand in this respect occurs. The Group has implemented and conducts, in close cooperation with the heads of individual organizational units, a systematic identification of future staffing needs and development programs for employees aimed at acquiring appropriate competences necessary for the organization.

When recruiting and selecting candidates, the Group makes every effort to ensure that this process is transparent and employee-friendly and effective for the company. When making decisions about establishing cooperation with candidates, the Group companies are guided by professional experience, work experience in the profession, and possessed education according to the scope of entrusted tasks. The Group employs both women and men of various ages, taking into account the assessment of the candidates' compliance with the substantive criteria and tries to prevent any form of discrimination.

| according to the criterion of age and gender | Employment structure in the Group As at 30 June 2020 | | |
|---|---|---|---|
| | women | men | total |
| 18-29 | 13 | 22 | 35 |
| 30-49 | 61 | 57 | 118 |
| 50+ | 21 | 36 | 57 |

## Share capital

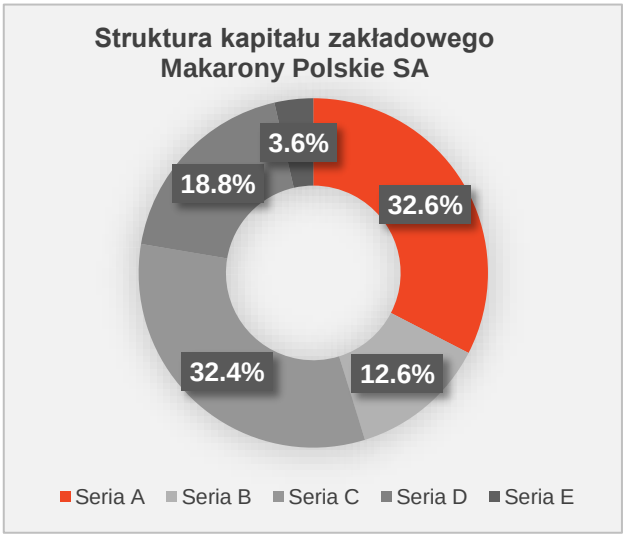
Share capital of Makarony Polskie SA:

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

Structure of the Company's share capital:

- 3,013,250 ordinary series A bearer shares,
- 1,169,750 ordinary series B bearer shares,
- 3,000,000 ordinary series C bearer shares,

- 1,735,821 ordinary series D bearer shares,
- 331,250 ordinary series E bearer shares.




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

There are no restrictions on exercising voting rights in the Company. There are also no restrictions regarding the transfer of ownership of securities issued by the Company.

## Shares held by main shareholders (over 5% of share capital)

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

| Shareholder | Shares in share capital | | Votes at the General Meeting | |
|---|---|---|---|---|
| | number | share% | number | share% |
| Grupa Praska Giełda Spożywcza SA, including: | 2,311,594 | 24.99% | 2,311,594 | 24.99% |
| *Praska Giełda Spożywcza SA (formerly: Agro-Technika SA)* | *2,050,000* | *22.16%* | *2,050,000* | *22.16%* |
| *Zenon Daniłowski* | *140,000* | *1.51%* | *140,000* | *1.51%* |
| *Polskie Smaki Sp. z o.o.* | *121,594* | *1.31%* | *121,594* | *1.31%* |
| Raya Holding for Technology & Communications S.A.E. including: | 1,793,406 | 19.39% | 1,793,406 | 19.39% |
| *Madova Sp. z o.o.* | *1,793,406* | *19.39%* | *1,793,406* | *19.39%* |
| Elżbieta i Grzegorz Słomkowscy, including: | 1,183,040 | 12.79% | 1,183,040 | 12.79% |

| | | | | |
|---|---|---|---|---|
| *Z.P.H. „ELPAST" Elżbieta i Grzegorz Słomkowscy s.c.* | *1,169,750* | *12.65%* | *1,169,750* | *12.65%* |
| *Grzegorz Słomkowski* | *13,290* | *0.14%* | *13,290* | *0.14%* |
| Agroma Ltd | 950,000 | 10.27% | 950,000 | 10.27% |
| Other Shareholders | 3,012,031 | 32.56% | 3,012,031 | 32.56% |
| **TOTAL** | **9,250,071** | **100.00%** | **9,250,071** | **100.00%** |

Changes in shareholding in the first half of 2020

On 18 March 2020 the Company received a notification sent by Wojciech Wiśniewski, on his behalf and on behalf of Agro-Jumal Sp. z o.o. with its registered office in Sieradz, regarding the 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, in 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 votes.

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, in 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 Wiśniewski informed that he and Agro Jumal Sp. z o.o.:

- do not have any subsidiaries which would hold the shares of the Company,
- have not concluded the agreement referred to in Article 87(1)(3)(c) of the Act on Public Offering, i.e. the agreement of which the subject matter is the transfer of the entitlements to execute the voting right,
- do not have any financial instruments which on maturity would unconditionally entitle or oblige their holder to acquire the shares to which voting rights are attached, already issued by the Company, referred to in Article 69b(1)(1) of the Act on Public Offering.
- do not have any financial instruments which relate to the shares of the Company indirectly or directly and have economic consequences similar to the consequences of the financial instruments specified in the previous sentence, referred to in Article 69b(1)(2) of the Act on Public Offering.

The Company has no other information that would indicate changes in the number of shares held by material shareholders (holding stakes over 5%) during the first half of 2020 and until the date of publication of these statements.

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

## Shares held by the Management Board Members

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

| Member of the Management Board | H1 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 associated with the following companies: Praska Giełda Spożywcza SA (former: Agro-Technika SA) and Polskie Smaki Sp. z o.o., which also hold shares in the Company; the total balance of ownership is 2,311,594 shares worth PLN 6,934,782.

In accordance with the information held by the Company, during H1 2020 and until the date of publication of these statements, there were no changes in the ownership of shares held by the President of the Management Board.

### Shares held by Members of the Supervisory Board

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

| Member of the Supervisory Board | H1 2020 | | 2019 | |
|---|---|---|---|---|
| | number of shares | nominal value | number of shares | nominal value |
| Marek Rocki | 0 | 0 | 0 | 0 |
| Michał Słomkowski | 0 | 0 | 0 | 0 |
| Roman Sobiecki | 0 | 0 | 0 | 0 |
| Samer Elwaziri | 0 | 0 | 0 | 0 |
| Wiesław Wasilewski | 5,000 | 15,000 | 5,000 | 15,000 |

In accordance with the information held by the Company, during H1 2019 and until the date of publication of these statements, there were no changes in the ownership of shares held by the Members of the Supervisory Board.

### Shares in subsidiaries

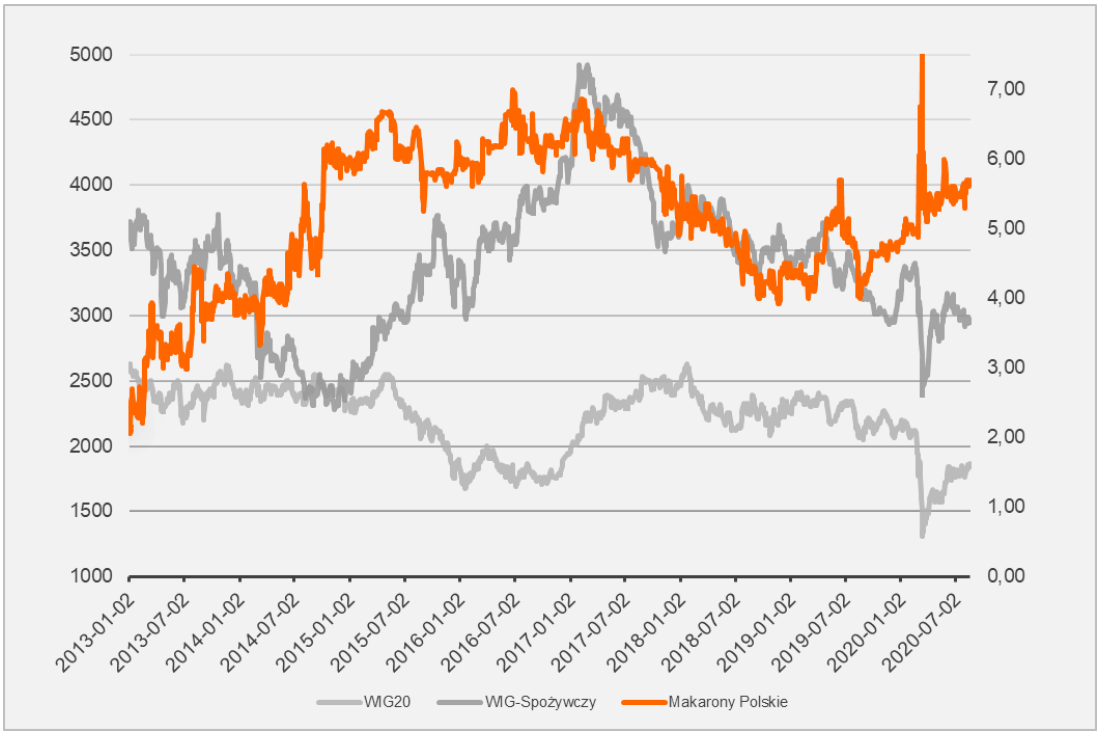
The managing and supervising persons of Makarony Polskie SA do not hold shares in subsidiaries of the Makarony Polskie Group.

## Makarony Polskie SA on the capital market

### Quotations and main indicators

Shares of Makarony Polskie SA have been listed on the Warsaw Stock Exchange since April 2007.

*In 2020, the Company will pay a dividend of PLN 0.25 gross per share, which gives PLN 2.3 million*




| | 2013-01-02 | 2015-01-02 | 2017-01-02 | 2019-01-02 | 2020-01-02 | 2020-08-18 | Zmiana od 2013-01-02 |
|---|---|---|---|---|---|---|---|
| Makarony Polskie SA | 2.06 | 6.03 | 6.45 | 4.4 | 4.84 | 5.7 | 177% |
| WIG20 | 2,626 | 2,309 | 1,957 | 2,302 | 2,200 | 1,840 | -30% |
| WIG-Food | 3,719 | 2,452 | 4,195 | 3,447 | 3,204 | 2,944 | -21% |

## Information on dividend in Makarony Polskie SA

In the first half of 2020 and until the date of publication of these statement, Makarony Polskie SA has not paid out the dividend.

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

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

Pursuant to Article 382(3) of the Code of Commercial Companies, this recommendation was presented by the Management Board to the Supervisory Board and it was positively reviewed by the Supervisory Board.

On 24 September 2020 the Annual General Meeting of Makarony Polskie SA adopted resolutions concerning the approval of the financial statements for the financial year 2019 and net profit distribution, including the dividend payout in the amount of PLN 2,312,517.75, i.e. PLN 0.25 zloty gross per share.

The dividend record day was set for 1 October 2020. The dividend will be paid out on 23 October 2020. 9,250,071 shares of the Company are eligible for the dividend.

The Management Board of Makarony Polskie SA decided that in the following years it will also try to recommend to the Annual General Meeting that the dividend be paid out to the shareholders, although each time the possibility of dividend payout will depend on the amount of the generated profit, current investment objectives and the situation.

## Use of revenues from issues

In the period from 1 January 2020 to the date of submitting this report, the Company did not issue any shares.

## Authorization for the Management Board to purchase own shares of Makarony Polskie SA

On 18 June 2019, the General Meeting of Shareholders of the Company, in response to a request submitted by one of the shareholders, by the resolution No. 16, decided to authorize the Company's Management Board to purchase ordinary bearer shares of Makarony Polskie SA, with a nominal value of PLN 3.00 each, listed on the main market of the Warsaw Stock Exchange, i.e. the market of official stock exchanges.

Pursuant to the decision of the General Meeting of Shareholders, the Company is entitled to purchase its own shares, fully paid-up, with the maximum number of own shares that the Company may buy is 1,850,014 shares, with the proviso that the total nominal value of the shares purchased, along with the nominal value of other shares which have not been sold by the Company may not exceed 20% of the share capital of the Company. The shares shall be acquired in particular for the purpose of: redemption, resale or exchange.

The authorization granted covers a period of 5 years from the date of adopting the General Meeting of Shareholders Resolution, but not longer than until the reserve capital created to purchase own shares has been used.

The price of payment for one share will be from PLN 6.00 to PLN 8.52, and the total maximum amount of payment for the shares will be no more than the amount of reserve capital created for this purpose

The date of commencement and completion of the acquisition of own shares, as well as the terms and conditions for the acquisition of own shares not specified in the General Meeting of Shareholders Resolution, the Management Board will publish, in accordance with Article 56 of the Act of 29 July 2005 on public offering (...) and in accordance with Regulation (EU) No 596/2014 of the European Parliament and of the Council of 16 April 2014 on market abuse (...).

As part of the authorization granted, the Management Board may acquire own shares only as a result of announcement of an invitation to submit share offers, which invitation will be implemented through an entity conducting brokerage activity, with the minimum number of shares in each invitation not lower than 300,000 units.

The General Meeting authorized the Management Board to take all factual and legal actions necessary to purchase its own shares in accordance with the adopted Resolution and to determine the other terms and conditions for the acquisition of own shares, to an extent not regulated by the Resolution.

For the purposes of the Company's acquisition of own shares, a reserve capital of PLN 12.0 million was created based on and within the scope of the authorization granted to the Management Board. The reserve capital was created by transferring PLN 12.0 million from the Company's supplementary capital.

*The Group's portfolio is constantly adapted to market trends and the needs of customers - has recently been enriched by functional products: dietary and health-oriented products.*

# Activities of the Makarony Polskie Group

## Main products and services

Brand products range:

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 bi-brad with Abak brand) and extruded pasta made of common wheat flour and durum wheat flour. The offer includes 7 most popular forms widely used in the kitchen.





The offer also includes functional pasta of a dietary and healthy nature (pasta 100% spelled, rye, buckwheat or whole grain pasta with increased fiber content).

Following the strong food market trend to offer products in single-serving packaging, the health-promoting line is also offered by the Company in 100 g packaging, promoted with the motto "W sam raz na raz" [Perfect for one meal].



In this basis weight the offer includes pasta from the pro-health line and wheat pasta in two forms.

The Makarony Polskie Group's portfolio includes a wired range of rolled egg pasta, produced according to Polish traditional recipes. The offer includes ribbons and tagliatelle pasta that have wide culinary uses and are willingly used by the consumers who like to experiment in the kitchen. They are made from durum wheat flour and thus, are springy and at the same time, have a delicate taste.






The egg product line is also diversified by popular egg pasta forms dedicated primarily as an addition to soups: vermicelli and ribbon pasta with a characteristic irregular shape inspired by home-made, cut pasta.

In 2020 the brand's portfolio has been enriched with pasta made of quail eggs. In this line, there are two most popular forms available, i.e. tagliatelline and ribbons.




The offer of Makarony Polskie also included high protein pasta using an innovative recipe and a mixture of alternative flours. This product is the result of the implementation of the results of research and development in the field of functional food, implemented under a project supported by EU funding (measure 1.4 Support for SMEs, Regional Operational Program of the Podkarpackie Region 2014-2020). Carefully selected proportions of whole wheat flour, durum wheat, flour of chickpea, lentils and pumpkin seeds make High Protein Pasta product with excellent nutritional values. This pasta is a natural source of fiber, has a high protein content 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. In Q.3, 2019, works began on lifting the packaging of egg pasta. The purpose of this action is to organize product visualization and to give the brand a characteristic color code for this segment, allowing to strengthen brand awareness among customers.




**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-cooked meals under the brands of Stoczek and Męska Rzecz and lards under the brand of Stoczek. The ready-cooked meals 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.

The Tenczynek brand comprises fillings and salty stuffing for the bakery sector and gastronomy, which are a very dynamically developing market segment.

## FRUIT PRODUCTS

The fruit products assortment covered plum and other fruit jams (Stoczek and Tenczynek), syrups (Tenczynek) – produced with the highest quality.

## DISHES ON TRAYS

In the fourth quarter of 2019, ready-made dishes on trays were introduced to Makarony Polskie Group's offer, which are offered under the new So Food brand. The distribution network of this product category is constantly expanded and the company is trying to adapt its brand portfolio to the market trends and the constantly changing, very demanding consumer.

SoFood products are offered to customers both on the so-called stable shelf (uncooled) shelf as well as on the refrigerated shelf in two lines: Inspired by world described with a characteristic color line that facilitates easy identification.




A distinguishing feature of this product group are light, two-chamber trays, their ease and quickness of heating and a possibility of storage at room temperature.

The category of ready-made dishes on trays will be systematically expanded to maintain consistency with market trends and customer needs.

## DRIED FRUIT

Dried fruit offered by Stoczek Natura Sp. o.o. in the Deli-Susz brand. The brand's portfolio consists of the products based on dried Polish apples and a mixture of dried fruit. These are products that respond to the trend of seeking healthy alternatives to high-calorie snacks full of chemical additives, because they are 100% natural, without the addition of preservatives, artificial colors, sugar or fats.



## NOVELLE BRAND

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

Novelle is an aspirational brand, addressed to consumers inclined to culinary experiments, dedicated to the innovative product line responding to food trends firmly embedded in vegetable cuisine. The Group's ambition is for it to be a brand that creates trends in the category of innovative products, alternative to products based on traditional recipes.




Currently, under the Novelle brand, legumes derived flour pasta and tortellini pasta in various flavors are offered.




In subsequent periods, the Novelle brand offer will be expanded with new products based on vegetable proteins. Works on the development of new products will be performed in close cooperation with the marketing team of Makarony Polskie SA and New Product Development (NPD) teams operating in the Makarony Polskie Group.

### Private label products range:

The Makarony Polskie Group offers a wide range of products for private labels in each of its product category. The Group's offer is used by many retail chains on both Polish and foreign markets, mainly in the segment of pasta, but also of meat and vegetable, vegetable and fruit preserves.

When developing the range of products for the needs of the retail chains' private labels, it follows the global trends on the food market, especially: health and nature, convenience and healthy convenience, tradition/origin and premiumization.

In the first half of the year, an investment in the infrastructure for the development of "demanding" pasta, i.e. pasta produced using a wider range of legume flours and other healthy gluten-free flours, has been finalized.

As part of the convenience trend, the Group has a flexible approach to the individual expectations of the retail chains, both in terms of product composition and packaging in the segment of ready-made dishes on trays, thus making its market offer more attractive.

In response to the premiumization trend, recipes for large pasta shapes are being improved, the offer of high-egg rolled pasta is under development, development works are also carried out in the area of ribbons and tagliatelle with the addition of herbs, spices and natural dyes.

The Group reacts flexibly to the changes in consumers' shopping habits caused by the coronavirus pandemic by introducing larger packaging sizes in the basic assortment which is a basis of everyday meals.

## Market environment

### General market trends

Pasta market

The pasta market in Poland is quite stable. The key trends affecting the pasta market include:

- local production – the consumer prefers Polish products and check more carefully the country in which the product has been produced and the origin of its ingredients,
- health benefits of meals – a consumer is looking for additional nutritional values which have a positive impact on health,
- clean label – emphasis on using natural additives and producing products without chemical additives,
- cooking at home – the consumers had to start preparing more meals at home due to the current epidemic situation and they are cooking for culinary inspirations.

A strong trend on the food market is the fashion for healthy eating and various types of diets, such as gluten-free, low-carbohydrate or vegan diets. This has a direct impact on the product offer - there are numerous BFY (Better-For-You) products based on whole grains, alternative cereals, legumes or gluten-free ingredients and vegetables.

Another important trend for the category is the focus on the Polish production. According to the consumers' declarations concerning the product origin, a very important factor influencing the purchase is the country of origin of the product and its ingredients. Local products are popular because of their taste, as well as the willingness to support local producers.

When discussing current market trends, it is impossible not to mention the growing consumer awareness of not wasting food. The "zero waste" trend is not only observed in the scope of packaging diversification by manufacturers: standard, family or "portion at once", but also as a social trend promoting responsible shopping (buy as much as you eat) and culinary educating in the full use of products food. In 2020, during the increased amount of time spent at home during an obligatory lock-down, the consumers have learned to manage their purchases even better and to minimize the amount of food wasted.

The market of ready-made dishes

The Polish market of ready-made dishes is under development and its expected value by the end of 2020 is PLN 2.1 billion. This market is characterized by a dynamic change of structure, both in terms of a range of the products offered and the producers who are competing on it.

Trends which have the strongest impact on the market of ready-made dishes are:

- the consumers look for natural and healthy meals,
- purity and transparency – use of a transparent foil to show a meal,
- increasing care for the environment, the consumer expects from the producer a sustainable production policy and minimization of the harmful impact on the environment (less plastic, recyclable materials),
- it is fashionable to use inspirations from different regions of the world in meals.

The trend of pro-healthiness and naturalness is more and more important in the category of ready-made dishes which is perceived as "processed". The need of food "free of…" increases with the level of the consumers' knowledge and their fear of allergies and preservatives. Even here, the customers are more and more often demand "a clean label" (no artificial additives, flavor enhancers and preservatives), while the producers put an emphasis on the simplicity and pro-healthiness of the recipes. Apart from a clean label and a short list of ingredients, the consumer pays a lot attention on the food packaging. It is desirable that the products have a transparent foil. The customers want to see a meal before purchasing it. Additionally, the packaging of ready-made dishes should be environmentally-friendly. The producers are expected to care more and more about production technologies, using recyclable materials and reducing the amount of plastic.

For many years, on the European markets, a trend of developing the segment of ready-made dishes on trays and in cups at the expense of the systematic shrinkage of the shelf of products in jars has been observed. In Poland, the so called "shelf-stable" has still the largest market share, but also here, it is becoming more visible that the consumers are turning towards a refrigerated shelf. It is a result of, among others, a strong convenience trend (convenience, ease of use). The producers are looking for new solutions which will make it easy for the consumers to heat up and consume a dish. The convenience and quickness are underlined by propositions of dishes inspired by takeaways which appear more and more often. The category records a popularity growth of the so-called "meal kits" (sets allowing you to complete or compose a dish on your own) which results from the need of compromise between mass ready-made dishes with no individuality and long and often demanding cooking from scratch.

### Sales markets of the Makarony Polskie Group

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

In H1 2020, the value of sales amounted to PLN 89.80 million on the domestic market and PLN 10.71 million in export. In the corresponding period of 2019, these amounts were PLN 73.53 million and PLN 6.57 million.

| For the period | 01.01.2020-30.06.2020 | 01.01.2019-30.06.2019 |
|---|---|---|
| Country | 89,798 | 73,531 |
| Exports, including: | 10,707 | 6,565 |
| - European Union countries | 3,188 | 1,032 |
| - other countries | 7,519 | 5,533 |
| Total | 100,505 | 80,096 |

## Material agreements

### An annex to the co-finance agreement concerning the project entitled "Creation of an R&D Centre of the Pasta Industry at Makarony Polskie SA"

In February 2020, the Company concluded with the Ministry of Development and Finance an annex under which the completion date of the project entitled "Creation of an R&D Centre of the Pasta Industry at Makarony Polskie SA" under Measure 2.1 – Support for investment in R&D infrastructure of enterprises under the Smart Growth Operational Program for the years 2014-2020 was amended.

The project completion date was set for 31 December 2020 (the previous date was 31 March 2020). The application of the Company for amending the project completion date resulted from the amendments to the schedule of construction works. The postponement of the project completion date will enable the Company to thoroughly fulfil the obligations and complete the project in accordance with the assumptions.

The Company purchases fixed assets and construction works, as part of the project. For the needs of the B&R Center, the purchase will include a modern production test line, whose

parameters will reflect the conditions prevailing during the industrial production process (that line will be an asset of material value);

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

### Annexes to the credit agreements with Santander Bank Polska SA

In the first half of 2020, Makarony Polskie SA concluded annexes to the agreements on credits taken out at Santander Bank Polska SA:

- the agreement on investment credit granted in the primary amount of PLN 15.0 million, out of which, as at the day of concluding the annex, due to repayment of a part of credit instalments by the Company, the credit agreement balance amounted to PLN 5.1 million.

  The annex introduced the following amendments to the agreement:
  - it extended the repayment date of the liability until 30 December 2023 (the previous date was 30 April 2020),
  - it introduced a new repayment schedule in such a manner that the credit will be repaid in 49 monthly instalments,
  - 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 agreement on EU investment credit granted in the primary amount of PLN 12.1 million, out of which, as at the day of concluding the annex, the credit agreement balance amounted to PLN 7.8 million

  The annex introduced the following amendments to the agreement:
  - it extended the credit limit disbursement period until 30 September 2020 (the previous date was 31 March 2020),
  - it extended the repayment date of the liability until 28 December 2023 (the previous date was 28 February 2020),
  - it introduced a new repayment schedule in such a manner that the credit will be repaid in 37 monthly instalments,
  - it standardizes the liabilities of the Company in accordance with other credit agreements with the Bank (e.g. standardizing a definition of covenants).
  - The agreement on EU investment credit granted in the primary contractual amount of PLN 8 million, out of which as at the day of concluding the annex, due to the repayment of a part of capital instalments by the Company and the EU refinancing, the credit agreement balance amounted to PLN 1.6 million.

  The annex introduced the following amendments to the agreement:

- it extended the repayment date of the liability until 31 December 2023 (the previous date was 31 January 2022),
  - it introduced a new repayment schedule in such a manner that the credit will be repaid in 49 capital instalments,
  - it adjusted the value of collateral to the credit exposure of the Bank,
  - it standardizes the liabilities of the Company in accordance with other credit agreements with the Bank (e.g. standardizing a definition of covenants).
- the agreement on credit in the current account with the credit limit up to PLN 5.0 million. The annex introduced the following amendments to the agreement:
  - it adjusted the value of collateral to the credit exposure of the Bank,
  - it standardizes the liabilities of the Company in accordance with other agreements with the Bank (e.g. standardizing a definition of covenants).
  - the liability repayment date was extended until 31 May 2021.

### Annex to the credit agreement with Bank Gospodarstwa Krajowego

In H1 2020, Makarony Polskie SA concluded with Bank Gospodarstwa Krajowego an annex to the agreement on credit in the current account with the credit limit of PLN 6.0 million.

The annex extends the liability repayment date from 30 June 2020 until 30 June 2021. The other major terms and conditions of the credit agreement have not changed.

### Security bond by 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 of 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 subsidiary Stoczek Natura Sp. z o.o. 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 the conclusion of annex to the agreement on credit in the current account by Makarony Polskie SA with Bank Gospodarstwa Krajowego, Stoczek Natura Sp. z o.o. concluded with this bank an agreement on a security bond with regard to the repayment of the credit liability of the parent company.

The security bond with regard to 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 material for the development of the Group

### 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

- development of R&D activity in the area of innovative products: functional, health-oriented food in Makarony Polskie SA, an interdisciplinary team was established, which in cooperation with scientific institutions works on developing innovative technologies for the production of new low-processed and health-promoting products that are easy to prepare,
- the project related to the adaptation of the electric, cooling and technological installation was completed by adjusting the parameters of the connections to the future increased production capacities of the production plant in Rzeszow
- in the production plant in Częstochowa in 2020, an investment project was carried out to improve the conditions in the area of intensive human labor through a high-efficiency system of industrial ventilation,
- in the production plant in Częstochowa, works have been started on the construction of drying tunnel for go-through drying of pasta which will allow for increasing the production flexibility and reducing the energy consumption of the drying process, planning works have also been carried out with regard to the construction of a high-bay warehouse for finished products and packaging,
- in the production plant in Rzeszów in the first half of 2020, investment in a semi-industrial line for technological tests was completed, it will significantly accelerate the process of development and implementation of product innovations, works connected with the adaptation of rooms for the Research and Development Center were carried out, the process of selecting the suppliers of laboratory equipment was commenced, the assembly of additional silos for pasta being a buffer between a production and packaging has been commenced, which will increase the production efficiency in Rzeszów; in the second half of 2020, the plant will increase the packaging capacity for short pasta forms in connection

with the purchase of a packaging line, brick type, it is also planned to complete the investment in the automatic system for mixing various indices in one collective package.

- Stoczek Natura is also modernizing production halls in connection with ongoing purchases of new machinery and equipment.

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

- project entitled "Implementation of research and development results in the field of functional food in Makarony Polskie SA", implemented under Measure 1.4 Support for SMEs, Regional Operational Program of the Podkarpackie Region 2014-2020, implemented by the company in the period from March 2017 to April 2019 enabled the Company implementation of research and development results performed in cooperation with the scientific unit, based on the development of innovative recipes of products using raw materials that are not standard in the pasta industry. The main objective of the project is the expansion of Makarony Polskie SA on the functional food market. The company has completed the supported investment project in April 2019. The company, fulfilling all obligations under the co-financing agreement, fully settled the project (including it received the final refinancing of expenses incurred) which occurred in July 2019,
- project entitled "Establishment of the Research and Development Center of Pasta Industry at Makarony Polskie SA", implemented under Measure 2.1 Support for investment in enterprise R&D infrastructure, Intelligent Development Operational Program 2014-2020, assumes establishment of a Research and Development Center of Pasta Industry at the Makarony Polskie SA. The B&R Center will conduct work on innovative products with pro-health features that will ultimately enrich the Company's product offer as well as issues relevant to the entire pasta industry. The Company plans to purchase fixed assets and construction works, as part of the project. For the needs of the B&R Center, the purchase will include a modern production test line, whose parameters will reflect the conditions prevailing during the industrial production process (that line will be an asset of material value).
- project of Stoczek Natura Sp. z o.o. entitled "Increase in competitiveness of Stoczek Natura Sp. z o.o.", implemented under measure 3.7 RPO WL 2014-2020, assumes increasing the competitiveness and innovativeness of the Company on the domestic and international market by implementing the results of R&D works possessed and introducing to the production innovations in the form of meat product ready meals technology. The subject of the project is the implementation of innovative solutions through the modernization of the line for the production of ready meals in jars and cans.

The implementation of the project will positively affect the improvement of the quality and innovativeness of the offered products, their repeatability and increased production efficiency. In addition, as a result of the project, the Company will be able to introduce new products with pro-health values to the commercial offer, addressed to a new group of consumers. 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 non-produced products. The Company completed the supported investment project in August 2019. By fulfilling all obligations resulting from the co-financing agreement, the Company fully settled the project (and it received the final refinancing of incurred expenses), which took place in January 2020. Since Q.1, 2020 the Company's offer includes 9 indices from the category of ready-made dishes on trays. There are products ready to eat, they can be reheated in a microwave or in a traditional way. They were positively received by the customers. This new, dynamically developing category, that is ready-made dishes on trays, opens up new opportunities of sales development for the Company, especially on the export markets. The revenues planned by Stoczek Natura Sp. z o.o. in this segment in 2020 are over PLN 4.0 million.

Activity development in the private label segment

- enriching the offer addressed to new and existing customers with health-promoting products, high-protein, made of leguminous flour and premium products, including pasta with the addition of quail eggs;
- enriching the offer directed to new and existing customers with ready meals, meat, canned meat and soups;

- activities aimed at improving the profitability of the sales channel.

Development of B2B sales channels and Institutions

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

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

- intensification of marketing activities aimed at the increase in the presence of the Makarony Polskie brand on the market, a new definition of Stoczek Natura, Sorenti, Tenczynek and Novelle, as well as the introduction of a new brand, SoFood under which ready-made dishes on trays are offered – in 2020 the Group plant to prepare a plan of support for marketing activities in this area,
- development and implementation of cooperation mechanisms with wholesale customers, retail local networks and network trade, especially in the area of international medium and small networks and convenience networks - as a selective distribution strategy, taking into account the specificity of the categories in which the Group operates,
- focusing on fast and efficient building of brand availability in the modern channel and implementation of an effective distribution policy in the traditional channel,
- intensification of trade marketing activities supporting sales and resale of products and building lasting relationships with customers.

Export development

- focusing on European markets, including in particular Ukraine, where the Group systematically develops its cooperation with the largest commercial networks.
- systematic increase in the number of customers on foreign markets, especially in the European Union,
- intensification of communication with current and potential recipients through the participation of, among others in trade fairs and organization of B2B meetings on target markets,
- acquiring and implementing projects concerning deliveries under the own recipient's brand,

- development of the product offer by offering functional products on foreign markets, e.g.: whole wheat pasta with high fiber content, spelled pasta, buckwheat pasta, vegetable pasta and new product categories, such as ready-made dishes on trays (especially the dishes for vegetarians which are in high demand on the market).

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

Impact of the COVID-19 pandemic on the activities of the Makarony Polskie Group

The impact of the Covid-19 pandemic which started at the end of Q1, 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 (also before the pandemic period, such as minimum wages). The above-mentioned issued had an impact on reducing the profitability at the level of gross profit sales from 23.1% in H1 2019 to 20.4% in H1 2020.
- The coronavirus pandemic had an impact also on the currency market, including the weakening of PLN against EUR. The Group recognized in H1 2020 foreign exchange losses in the statement of comprehensive income at the level of PLN 0.26 million (compared to PLN 0.04 million in H1 2019).
- 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 Funds received by Makarony Polskie SA in the amount

of PLN 1.5 million and remission of social insurance contributions in Stoczek Natura in the amount of PLN 0.15 million.

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. As at the date of publication of these statements, there was no disturbance in functioning of the production plants and other organizational entities.

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

After the analysis, the Group does not currently see any significant risk of impairment of assets, including in particular the assets subject to the tests for impairment. As at 31 December, the Group carries out annual tests for impairment of the center generating cash flows to which goodwill or an intangible asset with an indefinite useful life is allocated. As at the balance sheet date, an analysis of indications of impairment of assets was made. Assumptions regarding the future and estimates adopted are consistent with the assumptions and estimated adopted by the Group in the financial statements for 2019. In the opinion of the Management Board of the Parent Company, as at the balance sheet date, i.e. 30.06.2020, there were no indications of potential impairment of the ABAK and Tenczynek brands and the goodwill of Stoczek Natura. In the first half of 2020, the Group executed the assumed budgets for trademarks and subsidiaries. Therefore, as at 30 June 2020, the performance of tests was abandoned.

The Management Board of Makarony Polskie SA is closely monitoring 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.

## Risks and threats material to the Group's development

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

### The risk of changes in market trends

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

Current market trends are monitored on a regular basis. The Group's companies quickly and flexibly match their offer to them, both in terms of the products themselves and their production technology. The current product range of the Group is modified in line with market trends, e.g. health-related products, "Fit", products with reduced gluten content, pasta with flavors and ancient cereals (e.g. spelled, buckwheat), products based on, or with addition, vegetable flour are systematically developed. The portfolio is also systematically expanded with vegetarian products from the line of ready-made dishes on trays and in jars. In the first half of 2020, the Group’s offer was enriched with quail egg pasta and ready-made dishes on trays offered for the shelf stable.

### Risk related to competition

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

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

### Risk of dependence on recipients

A material part of revenues is generated by the Group through cooperation with organized and centrally-decisive commercial networks. A possible lack of continuity of cooperation with customers may affect the amount of revenues. Some commercial contracts do not contain a strictly determined amount of estimated purchases that the recipient will make during the term of the contract. There is a risk that recipients will submit orders that deviate quantitatively from the monthly plans adopted by the Group. This may result in the inability

to meet demand or incomplete use of production capacity, which will have an impact on the results.

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. Currently, more and more is being said about so called "second wave of the epidemic" in autumn, which may translate into a possible increase of the level of orders, whereby according to the Company's estimates, it should not be as dynamic as the one observed at the end of Q1.2020.

In the Group's opinion, this risk of dependence on recipients is not significant as the Group companies conduct systematic actions towards the diversification of customers and increasing the number of so-called medium-sized customers.

Risk related to changes in raw material prices

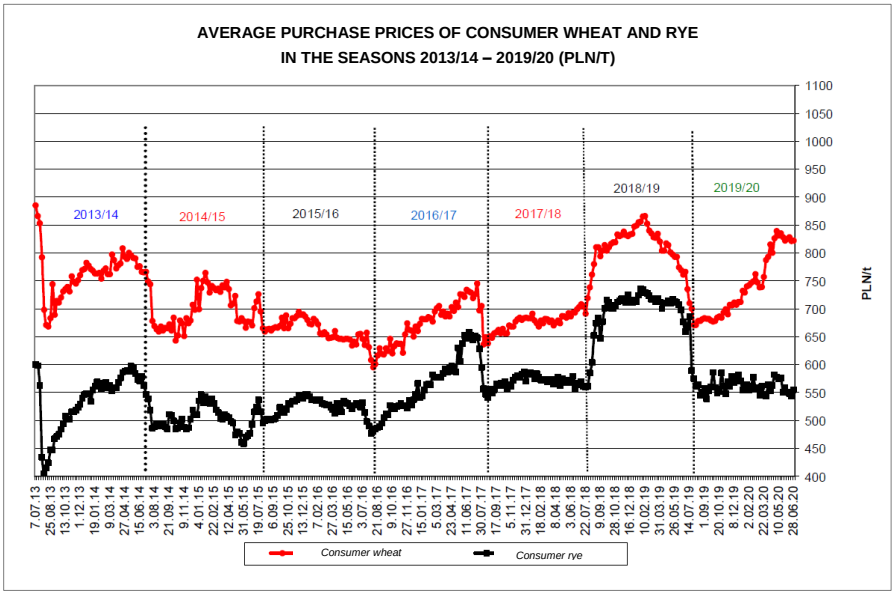
Makarony Polskie Group consistently strives to implement its strategy in the area of securing the raw material prices with long-term purchase contracts in annual and half-year periods, which helps to prevent material decreases in the profitability of the pasta produced. With regard to the current situation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

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 some 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.

It was as late as 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. A separate subject is a situation relating to durum wheat flours, where a poor harvest in the 2020/2021 harvest season resulted in maintaining, and even in a slight increase of prices of this raw material. The Company is closely monitoring current forecasts relating to both domestic market and quotations 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 trends.

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




*Source: Weekly report on the market for cereals, oilseeds and feed materials - Cereal market week 27/2020, 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. High prices remained until June. Currently, the prices on the Polish market are very diverse and amount to PLN 3.9-4.9 thousand for one ton of egg pulp.

Forecasts for the following months assume that the prices of eggs and egg weight may remain at the level indicated above with a slight upward trend in the second part of the third quarter, while those fluctuations should not have a material impact on the profitability of products.

Stoczek Natura Sp. z o.o. is a producer of fruit and vegetable preserves (including jams and salads) and ready meals. The prices of fruit and vegetables are strongly dependent on weather conditions. The Company cooperates with domestic fruit and vegetable suppliers, it also has an extensive database of foreign suppliers of key raw materials, which gives the Company greater opportunities to obtain cheap, good quality raw materials. Purchase of fruit and vegetables is performed seasonally, in months in which their prices are the lowest. If necessary, purchased raw materials are stored in Company warehouses and cold stores. Stoczek Natura Sp. o.o. is exposed to the increase in raw material prices resulting from various types of weather anomalies. Aiming at minimizing this risk, the Company maintains an extensive base of suppliers of key raw materials.

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

Risk related to changes in exchange rates

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

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

The table presents the currency structure for given classes of financial instruments as at 30 June 2020:

| Groups/categories of financial instruments | Carrying amount as at 30.06.2020 PLN '000 | Currency exposure as at 30.06.2020 PLN '000 | EUR PLN '000 | USD PLN '000 |
|---|---|---|---|---|
| Financial assets | | | | |
| Cash and cash equivalents | 427 | 64 | 60 | 4 |
| Trade receivables | 27,745 | 1,930 | 1,930 | |
| Financial liabilities | | | | |
| Trade liabilities | 32,656 | 6,055 | 6,055 | |

The table presents the analysis of the sensitivity of the financial result to changes in exchange rates as at 30 June 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 | 3.0 | -3.0 | 0.2 | -0.2 |
| Trade receivables (gross) | 96.5 | -96.5 | - | - |
| Financial liabilities | | | | |
| Trade liabilities | -302.8 | 302.8 | - | - |

Interest rate risk

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

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

In the first half of 2020, the Group used external financing in the form of bank loans: working capital loans, loans in the current account and investment loans.

As at 30 June 2020, the Group had a liability due to loans taken out, in the amount of PLN 28,158 thousand:

| Currency | Interest | Loan balance | Including loans | |
|---|---|---|---|---|
| | | | Short-term | Long-term |
| PLN | WIBOR + bank's margin | 28,158 | 15,140 | 13,018 |

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

The structure of financial instruments exposed to the risk of changes in interest rates as at 30 June 2020 is presented in the table below:

| Groups/categories of financial instruments | Carrying amount as at 30.06.2020 PLN '000 | Value exposed to risk as at 30.06.2020 PLN '000 | WIBOR PLN '000 |
|---|---|---|---|
| Financial assets | | | |
| Cash in hand and at bank | 427 | - | - |
| Financial liabilities | | | |
| Bank loans | 28,158 | 28,158 | 28,158 |
| Other financial liabilities | 1,588 | 1,588 | 1,588 |

The table below presents the analysis of the sensitivity of the financial result to changes in interest rates as at 30 June 2020:

| Interest rate | Deviation assumptions (in percentage points) 30 June 2020 | | Value at risk as at 30.06.2020 PLN '000 | Impact on the financial result 30 June 2020 PLN '000 | |
|---|---|---|---|---|---|
| WIBOR | 1% | -1% | 29,746 | - 297.5 | 297.5 |

Risk of insolvency of contractors

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

The Group exposure to the creditworthiness risk of the contractors has been monitored on a standing basis. The credit risk control is possible by virtue of limits verified and approved on a current basis within the Company 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.

# Financial situation

### Rules for preparing the consolidated financial statements

The financial statements have been prepared on the basis of the International Financial Reporting Standards, assuming the continuation of the business operations of the Group companies in the foreseeable future and to a significant extent. The Group did not conduct operations which were discontinued in H1 2020.

The financial statements of all entities were prepared for the same reporting period using consistent accounting principles. The financial year of the Group's companies is the calendar year (with the proviso that the first financial year of MP Trade Sp. z o.o. lasted from 28 September 2015 to 31 December 2016).

### Entities subject to consolidation:

| as at 30 June 2020 | Stoczek Natura Sp. z o.o. | MP Trade Sp. z o.o. |
|---|---|---|
| Type of relationship | a direct subsidiary | a direct subsidiary |
| Consolidation method | full | full |
| Date of taking control | 1 June 2007 | 28 September 2015 |
| % of held capital | 100% | 100% |

## Discussion of the Group results

| Makarony Polskie Group (in PLN'000) | 01.01.2020-30.06.2020 | 01.01.2019-30.06.2019 |
|---|---|---|
| **Revenues from sales** | **100,505** | **80,096** |
| Net revenues from sale of products and services | 93,909 | 76,775 |
| Net revenues from sale of materials and goods | 6,596 | 3,321 |
| **Own cost** | **79,963** | **61,623** |
| Production costs of products and services sold | 73,856 | 58,718 |
| Value of goods and materials sold | 6,107 | 2,905 |
| **Gross profit (loss) on sales** | **20,542** | **18,473** |
| Costs of sales | 11,872 | 10,167 |
| General administrative costs | 3,022 | 3,490 |
| Other revenues | 977 | 490 |

| | | |
|---|---|---|
| Other costs | 640 | 239 |
| **Profit (loss) from continued operations** | **5,985** | **5,067** |
| Financial revenues | 15 | 16 |
| Financial costs | 956 | 694 |
| **Profit (loss) from business operations** | **5,044** | **4,389** |
| **Gross profit (loss)** | **5,044** | **4,389** |
| Income tax - current part | 688 | 710 |
| Income tax - deferred part | 383 | 184 |
| **Net profit (loss)** | **3,973** | **3,495** |

The value of the consolidated revenues in H1 2020 amounted to PLN 100.5 million and was higher by approx. 25% higher compared to H1 2019. The cost of sold products, services, goods and materials in the first half of 2020 amounted to PLN 80.0 million (growth by approx. 30%). The higher growth dynamics of costs compared to the growth dynamics of revenues resulted from, among others, the increase in the prices of the key raw materials – flour, meat and egg pulp – in connection with temporary demand growth and turmoil in the supply chain caused by the Covid-19 pandemic, as well as the reluctance of the key customers to implement new prices, which translated into the gross sales margin achieved amounting to approx. 20.4% (compared to 23.1% for the first half of 2019). Gross sales profit amounted to PLN 20.5 million and was higher by PLN 2.1 million (+11%) compared to the corresponding period last year.

Sales costs amounted to PLN 11.9 million in the first half of 2020 and increased by PLN 1.7 million compared to the first half of 2019, which is a result of higher sales (including an increase of transport costs).

The result on operating activities (EBIT) in H1 2020 amounted to PLN 6.0 million compared do PLN 5.1 million in H1 2019, which gave an increase by 18%.

Net profit in the first half of 2020 amounted to PLN 4.0 million and was higher than the result of the first half of 2019 by PLN 0.5 million (+14%). The profitability on sales calculated at the level of net profit was 4.0% (compared to 4.4. % for the first half of 2019).

At the end of the first half of 2020, the Group recorded EBITDA at the level of approx. PLN 9.7 million, compared to the result of approx. PLN 8.2 million in the first half of 2019, which gives an increase by PLN 1.5 million YoY, i.e. 19%.

## Results achieved vs. forecasts

The Makarony Polskie Group did not publish financial forecasts for the financial year 2020.

## Group operating segments

### Revenues from sale of products, services, goods and materials by business segments

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

| | 01.01.2020-30.06.2020 | 01.01.2019 - 30.06.2019 |
|---|---|---|
| Revenues from sale of products | 89,626 | 73,242 |
| Revenues from sale of services, including | 4,283 | 3,533 |
| - service production | 1,369 | 1,062 |
| - transportation services | | |
| - for lease, storage | 2,912 | 2,463 |
| - other | 2 | 8 |
| Revenues from sale of materials | 5,111 | 2,131 |
| Revenues from sale of goods | 1,485 | 1,190 |
| Total | 100,505 | 80,096 |

In H1 2020, the Group recorded sales growth by PLN 20.4 million compared to H1 2019 and amounted to PLN 100.5 million.

### Sales revenues by operating segments

In the first half of 2020, Makarony Polskie Group realized sales according to the following product groups, achieving the following revenues in this respect:

| (PLN '000) | 01.01.2020-30.06.2020 | 01.01.2019-30.06.2019 |
|---|---|---|
| Pasta | 71,344 | 57,056 |
| Meat and vegetable preserves | 15,195 | 13,034 |
| Vegetable preserves and stuffing | 954 | 1,139 |
| Fruit preserves | 4,913 | 4,197 |
| Other | 8,099 | 4,670 |
| **Total** | **100,505** | **80,096** |

The sales revenues of the Makarony Polskie Group in the first half of 2020, amounted to PLN 100.5 million and were by approx. PLN 20.4 million higher than in the corresponding period of 2019.

Sales of the pasta category increased in the analyzed period by PLN 14.3 million to the amount of PLN 71.3 million. The increase of approx. 25% resulted from the increase of sales under commercial network brands, the development of the Makarony Polskie brand on the domestic market, positive growth dynamics of sales in exports and implementation at a higher level of the subcontracting agreement in the institutional contract compared to the corresponding period last year.

Sales of meat and vegetable preserves increased in the analyzed period by approx. PLN 2.2 million to the amount of PLN 15.2 million. The increase of approx. 17% (H1 2020 compared to H1 2019) resulted from the increase of sales under own brand and commercial network brands. In the analyzed period, a new line of dishes on trays under the SoFood brand was introduced.

Another segment in which a positive dynamics of changes was noted is the segment of processed fruit. Sales of fruit products in the analyzed period amounted to nearly PLN 4.9 million and was higher by PLN 0.7 million, i.e. 17% compared to 2019, which was caused by an increase of sales in the category of jams and damson cheese.

The segment of vegetable preserves and stuffing decreased in the analyzed period by PLN 0.2 million to the amount of PLN 1.0 million. The decrease resulted from the decrease of orders in the category of stuffing.

## Structure of the Group's assets and equity/liabilities

The balance-sheet total of the Group as at 30 June 2020 amounted to approx. PLN 182.2 million, compared to approx. PLN 173.6 million as at 31 December 2019 and to the amount of PLN 162.3 million as at 30 June 2019.

| ASSETS | 30 June 2020 | 31 December 2019 | 30 June 2019 |
|---|---|---|---|
| **FIXED ASSETS** | **129,046** | **126,942** | **112,305** |
| Tangible fixed assets | 111,407 | 108,814 | 91,120 |
| Fixed assets – IFRS-16 | 3,639 | 4,091 | 4,550 |
| Investment real estate | 603 | 603 | 603 |
| Goodwill | 5,949 | 5,949 | 5,949 |
| Other intangible assets | 7,366 | 7,363 | 9,927 |
| Other long-term financial assets | | | |
| Deferred income tax assets | 2 | 2 | 1 |
| Other long-term assets | 80 | 120 | 155 |
| **CURRENT ASSETS** | **53,108** | **46,685** | **50,018** |
| Inventories | 24,599 | 20,515 | 19,212 |
| Short-term receivables | 27,745 | 25,074 | 30,138 |
| Corporate income tax receivables | 4 | 17 | 0 |
| Loans granted | | | |
| Cash and cash equivalents | 427 | 718 | 358 |
| Other short-term assets | 333 | 361 | 310 |
| **ASSETS HELD FOR SALE** | | | |
| **TOTAL ASSETS** | **182,154** | **173,627** | **162,323** |

| EQUITY/LIABILITIES | 30 June 2020 | 31 December 2019 | 30 June 2019 |
|---|---|---|---|
| **EQUITY** | **83,961** | **79,988** | **79,680** |
| Share capital | 27,750 | 27,750 | 27,750 |
| Supplementary capital | 37,155 | 37,155 | 37,155 |
| Reserve capital | 12,000 | 12,000 | 12,000 |
| Retained profit/loss (profit/loss from previous years) | 3,083 | - 720 | -720 |
| Net profit/loss | 3,973 | 3,803 | 3,495 |
| **LONG-TERM LIABILITIES** | **43,015** | **39,351** | **26,407** |
| Deferred income tax provision | 3,904 | 3,522 | 3,753 |
| Long-term bank credits and loans | 13,018 | 17,995 | 8,660 |
| Provision for retirement benefits and equivalent (long-term) | 432 | 357 | 321 |
| Deferred income- long-term | 21,991 | 13,042 | 8,429 |
| Long-term financial liabilities- leasing | 847 | 1,160 | 1,525 |
| Long-term financial liabilities- IFRS -16 | 2,823 | 3,275 | 3,719 |
| **SHORT-TERM LIABILITIES** | **55,178** | **54,288** | **56,236** |
| Short-term bank loans and borrowings | 15,140 | 16,500 | 20,599 |
| Short-term financial liabilities – subsidy of the Polish Development Fund | 1,472 | 0 | 0 |

| | | | |
|---|---|---|---|
| Short-term financial liabilities - leasing | 741 | 762 | 1,045 |
| Short-term financial liabilities - IFRS-16 | 903 | 884 | 867 |
| Financial liabilities due to dividend | 0 | 0 | 2,313 |
| Other short-term liabilities | 32,656 | 33,673 | 29,310 |
| Corporate income tax liabilities | 102 | 426 | 133 |
| Deferred income- short-term | 1,412 | 975 | 678 |
| Provision for retirement benefits and equivalent (short-term) | 1,158 | 1,055 | 1,029 |
| Other short-term provisions | 1,594 | 13 | 262 |
| **ZOBOWIĄZANIA OGÓŁEM** | **98,193** | **93,639** | **82,643** |
| **TOTAL EQUITY/LIABILITIES** | **182,154** | **173,627** | **162,323** |

As at 30 June 2020, the value of fixed assets was approx. PLN 129,0 million (71% of total assets) compared to the level of PLN 126.9 million at the end of 2019 (increase of 2% compared to the end of 2019). The increase of fixed assets was caused by ongoing investments, mainly at the production plant in Rzeszów at Makarony Polskie SA and in Stoczek Łukowski at Stoczek Natura Sp. z o.o.

As at 30 June 2020, current assets amounted to approx. PLN 53.1 million and increased by approx. 14% compared to the end of 2019 when they amounted to PLN 46.7 million. The biggest change in current assets is an increase in inventories (increase by approx. PLN 4.1 million, i.e. by approx. 20% compared to the end of 2019) and receivables (increase by approx. PLN 2.7 million, i.e. by approx. 11% compared to the end of 2019) – which was caused by sales growth.

Equity, as at the balance sheet date amounted to approx. PLN 84.0 million, constituting approx. 46% of the value of equity and liabilities and increased by 5% compared to the value of PLN 80.0 million at the end of 2019. The change was caused by the consolidated profit for the first half of 2020 in the amount of PLN 4.0 million.

Long-term liabilities amounted to PLN 43.0 million and increased by 9% (by PLN 3.4 million) compared to the end of 2019, mainly due to the increase of revenues from future periods as a result of receiving the subsidy settled over time (+9.0 million), while long-term loans declined (-PLN 5.0 million)

Short-term liabilities as at 30 June 2020 amounted to PLN 55.2 million and increased compared to the end of 2019 when they amounted to PLN 54.3 million, i.e. by PLN 0.9 million (+1% YoY).

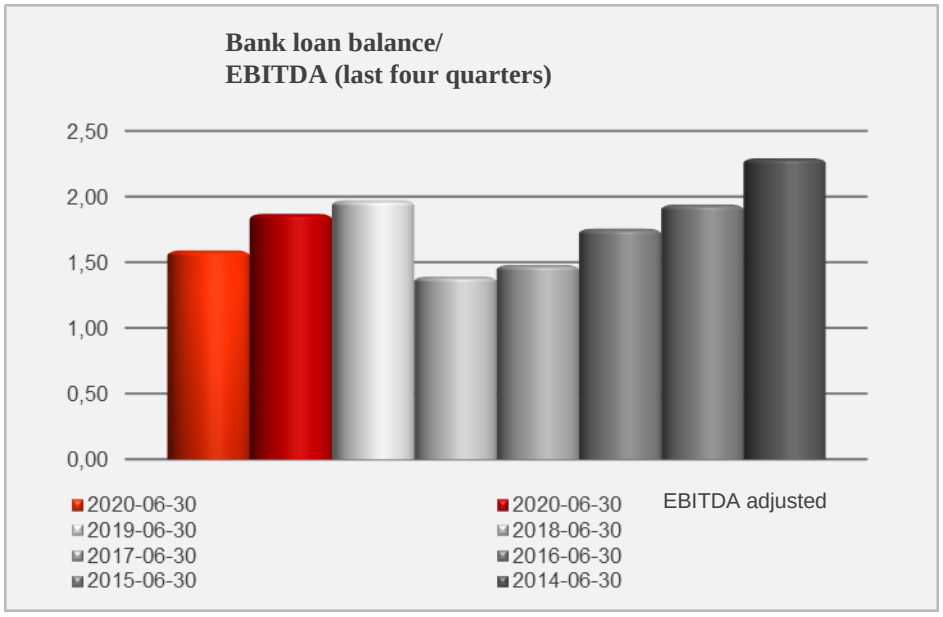
## Solvency and management of the Group financial assets and financial risk

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 H1 2020 was confirmed by:

- generation of positive cash flows on operating activities in the amount of approx. PLN 3.7 million,
- generation of EBITDA at the level of PLN 9.7 million in H1 2020 (increase by PLN 1.5 million compared to H1 2019),
- carrying out some of the purchases without availing of trade credit by the Group, which results in a financial advantage,
- performance of investment projects (in H1 2020, investment expenditure at the level of PLN 7.8 million),

At the end of June 2020, the ratio of bank loan balance to EBITDA remains at a safe level:




* EBITDA adjusted = profit on operating activities + depreciation + write-down of the carrying amount of the Tenczynek brand; EBITDA = profit on operating activities + depreciation

In the opinion of the Management Board there are no threats to prevent payment of the liabilities incurred. Due to the dividend payout and high expenses related to the implementation of the investment projects, the Group's debt will increase in the subsequent periods.

## Other financial information

### Informacje o udzielonych pożyczkach

Na dzień 30 czerwca 2020 roku spółka Makarony Polskie SA udzielała spółce zależnej Stoczek Natura Sp. z o.o. pożyczki krótkoterminowej w wysokości 2,0 mln zł, z terminem spłaty

przypadającym na dzień 31 grudnia 2020 roku (spłata jednorazowo do daty wymagalności zobowiązania). Oprocentowanie pożyczki ustalone zostało w oparciu o warunki rynkowe.

Spółki Stoczek Natura Sp. z o.o. i MP Trade Sp. z o.o. nie udzielały pożyczek w trakcie I półrocza 2020.

## Information on guarantees granted and obtained

In H1 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 30 June 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 sales and storage of pasta, under the contract concluded with the Material Reserves Agency (ARM) | – joint mortgage up to PLN 1,517 thousand on properties entered in land and mortgage register No. KW RZ1Z/00076860/5 in Rzeszów and KW PL1P/00094893/6 in Płock including the assignment of rights under the property insurance policy,<br>– blank promissory note and promissory note declaration |
| Santander Bank Polska SA | 249 | until 22.01.2021 | guarantee securing the Company's obligations under the agreement for storing pasta, under the contract concluded with the Material Reserves Agency (ARM) | – joint mortgage up to PLN 373 thousand on properties entered in land and mortgage register No. KW RZ1Z/00076860/5 in Rzeszów and KW PL1P/00094893/6 in Płock including the assignment of rights under the property insurance policy,<br>– blank promissory note and promissory note declaration |

The list of guarantees applicable in Stoczek Natura Sp. z o.o. as at 30 June 2020 is shown in the table below:

| Guarantor | Guarantee amount in PLN '000 | Guarantee validity period | Subject of the guarantee | Collateral |
|---|---|---|---|---|
| Bank Gospodarstwa Krajowego | 504 | until 13.12.2021 | guarantee securing the Company's obligations under the agreement for storing ready-made dishes, under the contract concluded with the Material Reserves Agency (ARM) | – mortgage up to PLN 756 thousand on the property entered into land and mortgage register No. KW LU1U/00022979/2 in Stoczek Łukowski, including the assignment of rights under the property insurance policy;<br>– blank promissory note issued by the Company and promissory note declaration;<br>– power of attorney to dispose of the current account at the Bank;<br>– security bond by Makarony Polskie SA |
| Bank Gospodarstwa Krajowego | 1 549 | until 15.12.2021 | guarantee securing the Company's obligations under the agreement for storing ready-made dishes, under the contract concluded with the Material Reserves Agency (ARM) | – mortgage up to PLN 2,323 thousand on the property entered in land and mortgage No. KW LU1U/00022979/2 in Stoczek Łukowski, including the assignment of rights under the property insurance policy;<br>– blank promissory note issued by the Company and promissory note declaration;<br>– power of attorney to dispose of the current account at the Bank;<br>– security bond by Makarony Polskie SA |
| Bank Gospodarstwa Krajowego | 24 | until 25.03.2022 | guarantee securing the Company's obligations under the agreement for storing preserves, under the contract concluded with the Material Reserves Agency (ARM) | – blank promissory note issued by the Company and promissory note declaration;<br>– 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 contract concluded with the Material Reserves Agency (ARM | – 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;<br>– blank promissory note issued by the Company and promissory note declaration;<br>– power of attorney to dispose of the current account at the Bank;<br>– security bond by Makarony Polskie SA;<br>– 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 30 June 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 30.06.2020 |
|---|---|---|---|---|
| Security bond for a credit in the current account amounting to PLN 3.0 million | Bank BGK | 3,000 | 16.05.2021 | 2,987 |
| Security bond for a revolving credit amounting to PLN 2.5 million | Bank BGK | 2,500 | 08.04.2021 | 2,500 |
| Security bond for an investment credit amounting to PLN 4.8 million | Bank BGK | 4,812 | 08.11.2025 | 4,210 |
| Security bond for a bank guarantee amounting to PLN 0.5 million | Bank BGK | 504 | 13.06.2022 | - |
| Security bond for a bank guarantee amounting to PLN 1.5 million | Bank BGK | 1,549 | 15.06.2022 | - |
| Security bond for a bank guarantee amounting to PLN 0.7 million | Bank BGK | 725 | 29.02.2024 | - |

Makarony Polskie SA received remuneration for the security bonds granted.

Stoczek Natura Sp. z o.o. granted security bonds to the parent company Makarony Polskie SA, the balance of the security bonds as at 30 June 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 30.06.2020 |
|---|---|---|---|---|
| Security bond for a credit in the current account amounting to PLN 5.0 million | Santander Bank Polska SA | 7,500 | 30.04.2023 | 1,060 |
| Security bond for an investment credit amounting to PLN 13.8 million | Santander Bank Polska SA | 30,000 | 30.09.2021 | 4,509 |
| Security bond for a credit in the current account amounting to PLN 6.0 million * | Bank BGK | 6,000 | 30.12.2021 | 4,833 |
| 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 | 4,171 |

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 H1 2020.

## Material transactions concluded by the Company and subsidiaries with affiliates under the terms other than market terms

In H1 2020, Makarony Polskie Group companies did not conclude material transactions with each other under the terms other than market terms.

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

## Off-balance items

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

| Off-balance items Makarony Polskie Group (in PLN'000) | 30 June 2020 | 31 December 2019 |
|---|---|---|
| **1. Contingent assets** | **4,062** | **4,062** |
| - received guarantees and security bonds | 4,062 | 4,062 |
| - collaterals on assets | 0 | 0 |
| - promissory notes | 0 | 0 |
| **2. Contingent liabilities** | **176,301** | **198,995** |
| - for received guarantees and security bonds | 0 | 0 |
| - collaterals on assets | 111,048 | 124,653 |
| - promissory note obligations | 65,253 | 74,342 |
| **Total off-balance items** | **-172,239** | **-194,933** |

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

| Off-balance items Makarony Polskie SA (in PLN'000) | 30 June 2020 | 31 December 2019 |
|---|---|---|
| **1. Contingent assets** | **58,881** | **63,881** |
| - received guarantees and security bonds | 56,881 | 61,881 |
| - collaterals on assets | 0 | 0 |
| - promissory notes | 2,000 | 2,000 |
| **2. Contingent liabilities** | **133,072** | **159,105** |
| - for received guarantees and security bonds | 13,090 | 13,090 |
| - collaterals on assets | 78,772 | 94,772 |
| promissory note obligations | 41,210 | 51,243 |
| **Total off-balance items** | **-74,191** | **-95,224** |

## Material proceedings pending before a court or an authority competent for arbitration or a public administration authority

In the reporting period presented, no material proceedings regarding liabilities and receivables of the Company or its subsidiary were brought before any court, arbitration tribunal or public administration authority.

## Events after the balance sheet date that may significantly affect the financial results

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

## Financial results of Makarony Polskie SA

### Characteristics of the basic economic and financial figures of Makarony Polskie SA

| Makarony Polskie SA | 01.01.2020-30.06.2020 | 01.01.2019-30.06.2019 |
|---|---|---|
| **Revenues from sales** | **92,650** | **72,804** |
| Net revenues from sale of products and services | 72,219 | 58,148 |
| Net revenues from sale of materials and goods | 20,431 | 14,656 |
| **Own cost** | **74,327** | **56,556** |
| Production costs of products and services sold | 55,519 | 43,718 |
| Value of goods and materials sold | 18,808 | 12,838 |
| **Gross profit (loss) on sales** | **18,323** | **16,248** |
| Costs of sales | 10,974 | 9,702 |
| General administrative costs | 2,225 | 2,484 |
| Other revenues | 672 | 386 |
| Other costs | 623 | 232 |
| **Profit (loss) from continued operations** | **5,173** | **4,216** |
| Financial revenues | 48 | 49 |
| Financial costs | 792 | 593 |
| **Profit (loss) on business activities** | **4,429** | **3,672** |
| **Gross profit (loss)** | **4,429** | **3,672** |
| Income tax - current part | 612 | 621 |
| Income tax - deferred part | 337 | 119 |
| **Net profit (loss)** | **3,480** | **2,932** |

The value of the revenues in H1 2020 amounted to PLN 92.7 million and was higher by approx. 27%, i.e. PLN 19.8 million compared to H1 2019. The costs of sold products, services, goods and materials in the first half of 2020 amounted to approx. PLN 74.3 million (an increase by approx. 31%).

Makarony Polskie SA closed the first half of 2020 with a gross profit on sales of PLN 18.3 million, which gives an increase of PLN 2.1 million compared to the same period in 2019, with a gross sales profitability of approx. 19.8% (compared to 22.3% for the first half of 2019). The decrease of gross sales profitability was caused by an increase of the prices of key raw materials – flour and egg pulp – in connection with temporary demand increase and turmoil in the supply chain caused by the Covid-19 pandemic and reluctance of key customer to introduce new prices.

Sales costs amounted to PLN 11.0 million in the first half of 2020 and increased by PLN 1.3 million compared to the first half of 2019, which is a result of higher sales (including an increase of transport costs).

Operating result (EBIT) in the first half of 2020 amounted to PLN 5.2 million compared to PLN 4.2 million in the first half of 2019 (an increase by PLN 1.0 million, i.e. 23%). Operating profitability was 5.6% compared to 5.8% in the first half of 2019.

Net profit in the first half of 2020 amounted to PLN 3.5 million and is higher that the result of the first half of 2019 by PLN 0.5 million (+19%). Return on sales calculated at the level of net profit amounted to 3.8% (compared to 4.0% for the first half of 2019).

In the first half of 2020, Makarony Polskie generated EBITDA of PLN 8.0 million (an increase by PLN 1.3 million YoY). EBITDA margin was at the level of 8.7% (compared to 9.2% for the first half of 2019).

## Structure of assets and equity/liabilities of Makarony Polskie SA

| ASSETS | 30 June 2020 | 31 December 2019 | 30 June 2019 |
|---|---|---|---|
| **FIXED ASSETS** | **112,852** | **113,267** | **104,049** |
| Tangible fixed assets | 73,516 | 73,444 | 63,711 |
| Fixed assets – IFRS-16 | 3,639 | 4,091 | 4,550 |
| Investment real estate | 603 | 603 | 603 |
| Other intangible assets | 4,934 | 4,944 | 4,957 |
| Goodwill | | | |
| Long-term financial assets, including | 30,080 | 30,080 | 30,080 |
| Shares | 30,080 | 30,080 | 30,080 |
| Borrowings granted | 0 | 0 | 0 |
| Assets for deferred income tax | 0 | 0 | 0 |
| Other long-term assets | 80 | 105 | 148 |
| **CURRENT ASSETS** | **43,293** | **38,445** | **41,004** |
| Inventories | 14,523 | 10,655 | 11,640 |
| Short-term receivables | 26,196 | 24,825 | 26,792 |
| CIT receivables | 0 | 0 | 0 |
| Borrowings granted | 2,005 | 2,006 | 2,005 |
| Cash and cash equivalents | 311 | 701 | 301 |
| Other short-term assets | 258 | 258 | 266 |
| **ASSETS FOR SALE** | **0** | **0** | **0** |
| **TOTAL ASSETS** | **156,145** | **151,712** | **145,053** |

| EQUITY/LIABILITIES | 30 June 2020 | 31 December 2019 | 30 June 2019 |
|---|---|---|---|
| **EQUITY** | **80,846** | **77,366** | **74,712** |
| Share capital | 27,750 | 27,750 | 27,750 |
| Supplementary capital | 32,362 | 32,362 | 32,362 |
| Reserve capital | 12,000 | 12,000 | 12,000 |
| Retained profits/losses (profit/loss from previous years) | 5,254 | - 332 | - 332 |
| Net profit/loss | 3,480 | 5,586 | 2,932 |
| **LONG-TERM LIABILITIES** | **34,202** | **34,449** | **25,064** |
| Provision for deferred income tax | 3,587 | 3,250 | 3,486 |
| Long-term bank loans and borrowings | 9,469 | 14,772 | 8,660 |
| Provision for retirement and similar benefits (long-term | 370 | 300 | 265 |
| Revenues of future periods - long-term | 17,117 | 11,711 | 7,472 |
| Long-term financial liabilities- leasing | 836 | 1,141 | 1,462 |
| Long-term financial liabilities – IFRS-16 | 2,823 | 3,275 | 3,719 |
| **SHORT-TERM LIABILITIES** | **41,097** | **39,897** | **45,277** |
| Short-term bank loans and borrowings | 8,992 | 10,907 | 17890 |
| Short-term financial liabilities- subsidy of the Polish Development Fund | 1,472 | 0 | 0 |
| Short-term financial liabilities- leasing | 689 | 685 | 982 |
| Short-term financial liabilities – IFRS-16 | 903 | 884 | 867 |
| Financial liabilities due to dividend | 0 | 0 | 2,313 |
| Other short-term liabilities | 25,815 | 25,411 | 21,571 |
| CIT liabilities | 102 | 426 | 104 |
| Revenues from future periods - short-term | 1,131 | 885 | 624 |
| Provision for retirement and similar benefits (short-term) | 797 | 699 | 664 |
| Other short-term provisions | 1,196 | 0 | 262 |
| **TOTAL LIABILITIES** | **75,299** | **74,346** | **70,341** |
| **TOTAL EQUITY AND LIABILITIES** | **156,145** | **151,712** | **145,053** |

As at 30 June 2020, the value of fixed assets was approx. PLN 112.9 million (72% of total assets) and was lower by PLN 0.4 million compared to the level at the end of 2019. The change of fixed assets was a result of depreciation charges, as well as ongoing investments, mainly at the production plant in Rzeszow. As at 30 June 2020, current assets amounted to approx. PLN 43.3 million and increased by approx. 13% compared to the end of 2019 when they amounted to PLN 38.4 million. The biggest change in current assets is an increase in inventories by approx. PLN 3.9 million, i.e. by 36% and increase in receivables by approx. PLN 1.4 million, i.e. by 6% compared to the end of 2019.

Equity, as at the balance sheet date amounted to approx. PLN 80.8 million, constituting approx. 52% of the value of equity and liabilities and increased by 4% compared to the value of PLN 77.4 million at the end of 2019. The change was caused by the net profit achieved in the first half of 2020 in the amount of PLN 3.5 million.

Long-term liabilities amounted to PLN 34.2 million and dropped by 1% (from PLN 34.4 million) compared to the end of 2019. The biggest change was in revenues from future periods as a result of receiving the subsidy settled over time (+PLN 5.4 million) and long-term loans (-PLN 5.3 million).

Short-term liabilities as at 30 June 2020 amounted to PLN 41.1 million and increased compared to the end of 2019 when they amounted to PLN 39.9 million.

# Statement of the Management Board

## Statement on the accuracy of the preparation of the financial statements

The Management Board of Makarony Polskie SA with its registered office in Rzeszow declares that to the best of its knowledge, the half-year separate and consolidated, condensed financial statements of Makarony Polskie Group for the period of the first 6 months of the financial year 2020, ended on 30 June 2020 and comparable data have been prepared in compliance with the accounting principles in force and reflect the Company's assets and financial standing as well as its financial profit or loss in a true, reliable and clear manner.

The Management Board's report on the operations of the Company and the Makarony Polskie Group for the period from 1 January 2020 to 30 June 2020 provides a true picture of the development and achievements as well as the situation of the Company and the Group, including a description of the basic threats and risks.

## Approval of the financial statements

This Management Board Report on the operations of the Capital Group, Makarony Polskie SA was approved for release by the Management Board of the parent company on 24 September 2020.

*Zenon Daniłowski*
*President of the Management Board*

# Information about the Company




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

www.makarony.pl

Registered in the District Court in Rzeszow, 12th Commercial Division of the National Court Register on 5 July 2004 under No. 0000212001.

Share capital: PLN 27,750,213 (fully paid-up)

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Feel free to contact us at the following email address:

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