Management Board Report on the operations of Makarony Polskie SA and the Makarony Polskie Group in the financial year 2019



Rzeszów, 8 April 2020

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

Last year was successful for our Group, as it generated total consolidated sales at the level of PLN 166 million, net profit of approximately PLN 3.8 million, and EBITDA of PLN 13.5 million

Letter of the President of the Management Board



Dear Readers,

Dear Shareholders,

I am presenting you the Report on the Operations and the Financial Statements of the Makarony Polskie Group for 2019.

Last year was good for our company. It achieved total sales revenues of PLN 165.6 million, net profit of PLN 3.8 million, whereas EBITDA exceeded PLN 13.5 million. The presented results are encumbered with an impairment write-down of the Tenczynek brand in the amount of PLN 2.6 million. This write-down is a consequence of the decision to change the long-term development strategy of the subsidiary Stoczek Natura Sp. z o.o. and to change the profile of the current production, i.e to limit the activity in the area of low-margin vegetable and fruit preserves under the Tenczynek brand, as well as to redirect core business to modern products, such as ready-made dishes on trays of "So Food". Without taking into account the write-down on the Tenczynek brand, the Group's net profit would amount to PLN 6.4 million and would be by 11% higher than in the previous year, whereas EBITDA would be PLN 16.2 million, which would be a growth by 15% compared to 2018. It should be emphasized that the operation on the Tenczynek brand is an accounting operation and as such it does not affect the operations of the Makarony Polskie Group.

The Makarony Polskie Group recorded the largest sales increase in the segment of pasta products by approx. PLN 16.6 million, which means a growth by 16.3% compared to 2018. It is worth emphasizing that this positive trend was generated mainly by innovative products, such as pasta made from leguminous plants, rolled semolina pasta with the addition of eggs and dynamic exports development, which allows to be optimistic about the prospects of the Group's further development.

Among the challenges for 2019 taken on by the Makarony Polskie Group the investment projects were the most important. In that period, we carried out 4 large projects with a total value of PLN 28 million. Two of them in the production plant in Rzeszów: the first one related to the launch of high-protein pasta production, whereas the second one to the launch of production of gluten-free flour pasta. The next two investments were carried out

Letter of the President of the Management Board

in the production plant in Stoczek Łukowski. One of them was a modernization of a production line for ready-made dishes in cans and jars, whereas the second was a purchase of a new line for production of ready-made dishes on trays.

We have completed two of the above-mentioned investments – one in Rzeszów and one in Stoczek. The other two projects are in the start-up phase of the purchased lines and their full commissioning is planned for 2020. Total financial expenditures on the above-mentioned projects and accompanying investments in the years 2018-2020 amounted to over PLN 50 million.

The main challenge for 2020 is to achieve professionalism in the production of a wide range of products on new lines and to bring the installed machines and equipment to their full capacity. We want to offer the consumers a wide range of products of high quality and unique taste which fit into the fashionable vege trend, i.e. based on plant raw materials.

In the Management Board's opinion, the commitment of the personnel, implementation of the investment program and development of new products will increase the value of the Makarony Polskie Group.

Please enjoy reading the complete text of the report.

Yours faithfully,

Zenon Daniłowski
President of the Management Board

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

Characteristics of the Makarony Polskie Group

Organization of the Group

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

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



Makarony Polskie SA is a producer of a wide range of pasta, produced in extruded and rolled technology. The Company offers pasta in many different forms, made on the basis of durum flour and wheat flour. In its portfolio, the Company also has products that respond to the trends of pro-health food, such as pasta made from spelt, buckwheat and rye flour. The range of products is enriched with large pasta forms for stuffing and vegetable pasta made from legumes such as chickpeas, red lentils and green peas. The Company has great opportunities to extend the range of pasta made from flours less frequent such as from legumes and the portfolio will be developed in this direction.

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

Stoczek Natura Sp. z o.o. is a producer of meat and vegetable preserves (ready-made dishes, pies, lard preserves), vegetable preserves (salads, marinades, 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.

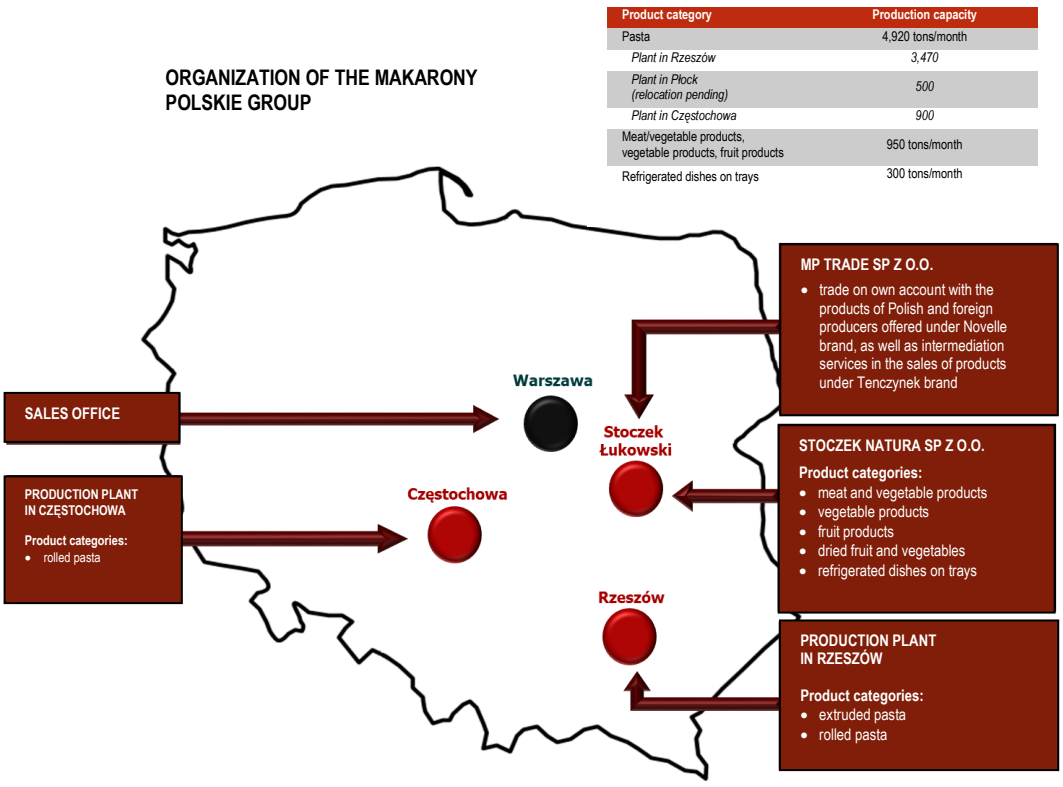
Characteristics of the Makarony Polskie Group

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

Changes in the organization of the Makarony Polskie Group in 2019

In 2019, there were no changes in the Makarony Polskie Group that would significantly affect the structure or organization of the Group.

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



In 2019 the reorganization of the activities of the MP Trade Sp. z o.o. subsidiary was continued. The Company was carrying out consistent activities aimed at building the value

of the Novelle brand by expanding the product portfolio (new products will be successively introduced to the Novelle brand portfolio), intensification of the marketing activities (including the support in the area of the Makarony Polskie SA parent company), as well as the brand positioning.

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

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

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

Selected market data

The pasta market is quite stable in Poland as regards structure (product assortment and manufacturers competing on the market), and in accordance with the projections for the coming years, it is going to grow especially in the segment of premium pasta.

The key trends affecting the pasta market are:

- the growing popularity of health-promoting pasta (health and wellness pasta),
- the growing demand for local tastes and varieties,
- the focus on applying natural ingredients and creating the so called "clean label" products.

A strong trend on the food market is the fashion for healthy nutrition and a variety of diets, such as gluten-free, low-carbohydrates or vegan ones. The pasta market has been adjusting to the customers' expectations in that regard in a fast and innovative manner. We have been observing numerous launches of BFY (Better-For-You) products based on whole grains, alternative cereals, leguminous plants or gluten-free ingredients and vegetables, which greatly contributes to the growth rate of the whole category.

"Gluten-free" revolution is a very strong trend and will probably rest in the category landscape for long. Important is the fact that currently the main recipients of gluten-free products are not people with allergies but those who consider food without that ingredient to be better for their health.

Healthy products are currently a standard expected by the customers, therefore, manufacturers striving for being distinguished among the competitors, enrich their products with various functional additions (chia, quinoa, algae, amaranth, buckwheat, kamut, millet/millet groats, teff, sorgo and spelt). Growingly common are also the vegetable "trends", among which kale or black garlic are also considered to be superfoods.

Also important in that category is the convenience trend (comfort, convenience), specifically as regards time. Statements specifying the time needed for the consumer to prepare a product have become as important as those regarding the nutrition-value or ingredients. The most frequent claim in that trend is the short preparation time, but there are also facilitations in the form of packaging (for example a zip lock bag) or single serving. Convenience also means flavorings, which saves some of the cooking work, both inside the pasta and added in the form of a sauce or a seasoning sachet.

As regards the current market trends, the growing consumers' awareness with regard to avoiding food waste must be mentioned. The "zero waste" trend has been observed not only in packaging diversification by the manufacturers, into standard, family or single serving ones, but also the social trend promoting sustainable purchasing (buy as much as you can eat) and educating the consumers in complete utilization of food products. Pasta fits that context ideally, as it is an inspiring cooking base to prepare many meals with a variety of ingredients, starting from soups and ending with main courses or hot and cold snacks.

The Polish market of ready-made dishes is characterized with fast structure changes, both as regards the offered products and the manufacturers competing thereon.

On the European markets a trend consisting in the development of ready-cooked meals on trays and in mugs has been observed, at the account of a shrinking number of jarred products. In Poland, the shelf-stable products still enjoy the highest market share, but also here the gradual turn of the consumers towards refrigerated products has been more pronounced. This results, among other things, from a strong convenience tendency (comfort, ease of use), which is increasingly common in the societies. A change in the consumers' lifestyle causes that also the manufacturers have been searching for new solutions, which will facilitate food heating and consumption for the people. The convenience and speed have also been emphasized by the proposed products inspired by take-away meals. The category has also watched the growing popularity of meal kits enabling independent composition of one's own meals, which originates from the

compromise between mass ready-cooked meals without any individual traits, and a long time needed to prepare meals from the scratch.

The health-promoting and natural characteristics has been more and more important in the ready-cooked meals category, perceived as highly processed. The demand for "free of..." food has been increasing along with the higher consumers' awareness and their concerns about allergies and preservatives. Also in that regard the consumers expect "clean labels", meaning products free of artificial additives, taste enhancers or preservatives, while the manufacturers emphasize the simplicity and health-promoting characteristics of the recipes.

The Makarony Polskie Group has been operating on the domestic market (covering for modern trade, traditional trade as well as B2B and institutions) and on foreign markets. As regards exports, the Group has been establishing cooperation with new customers on the European markets (Ukraine, Belarus, Russia, Romania, Germany, Serbia), the African markets (Egypt and the RSA), the Asian markets (Hong Kong and Iraq) and in the USA. It has also been continuously extending the product range offered to the existing customers.

Main export markets in 2019



In 2019 the Makarony Polskie Group operated mainly on the European markets (Ukraine, Germany, Serbia).

The products of the Makarony Polskie Group are highly esteemed among the foreign recipients. They are synonymous to healthy and tasty products originating from ecologically clean areas of Poland, which contributes to their growing popularity on foreign markets. In the coming years the companies of the Group are going to focus mainly on attracting and serving customers on European markets.

Within the perspective of the next few years the most important will be the e-commerce sector, especially after the experience related to the COVID-19 pandemic. This channel in trade of the Makarony Polskie Group's products will be the rightful sales channel. The Group plans a multi-level entrance in that promising sector, mainly by presence on the commercial platforms of its contractors and improved activities in social networking media, also in the context of sales promotion.

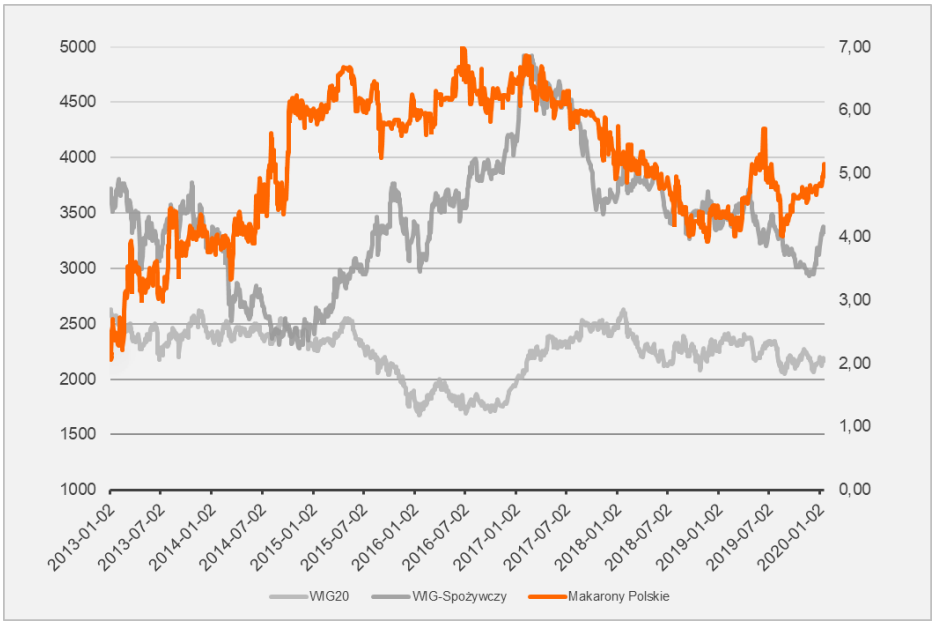
Currently, the market observes better development of the sector of services than that of trading goods, which may translate in the future in slower growth rates of the food categories in which the Group is present as regards business to customer (B2C) segments. Therefore, the Group sees its potential in the business to business (B2B) sector which is constantly being developed in the form of service activity for the owners of other brands. In its B2C distribution policy the Group is going to concentrate on customers with the highest sales potential in the food products categories represented by the Group as food manufacturer.

It is difficult to estimate the final effects of the COVID-19 pandemic which may significantly change the consumer behavior. However, it must be assumed that in the industry of pasta and ready-made dishes there will be no major changes, but the consumer habits may change.

Makarony Polskie SA on the capital market

Listings and major indicators

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



	2013-01-02	2014-01-02	2015-01-02	2016-01-04	2017-01-02	2018-01-03	2019-01-02	2020-01-02	Change from 2013-01-02
Makarony Polskie	2.06	3.8	6.03	6.03	6.45	5.15	4.40	4.84	135%

WIG20	2,626	2,431	2,309	1,804	1,957	2,463	2,302	2,200	-16%
WIG-Spożywczy	3,719	3,330	2,452	3,409	4,195	3,696	3,447	3,204	-14%

Dividend policy at Makarony Polskie SA

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

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

On 18 June 2018, the Annual General Meeting of Makarony Polskie SA passed Resolution No. 15 regarding the payment of dividend amounting to PLN 2,312,517.75, i.e. PLN 0.25 gross per share.

The dividend date was set for 14 August 2019. The dividend was paid out on 29 August 2019. 9,250,071 shares of the Company were subject to dividend pay-out.

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

- assign PLN 2,312,517.75 to the dividend pay-out, i.e. pay out dividend in the value of PLN 0.25 gross per share,
- assign the remaining part of the profit amounting to PLN 3,272,986.57 to the supplementary capital of the Company.

In accordance with Article 382.3 of the Code of Commercial Companies, the recommendation was presented by the Management Board to the Supervisory Board and was signed off by the latter. The final decision regarding profit distribution for the reporting year 2019 will be made by the Annual General Meeting of the Company.

The Management Board of the Makarony Polskie SA has decided that in the subsequent reporting years it will try to recommend to the AGM the payment of dividend to shareholders, although the possibility to pay out the dividend may depend on the value of profit generated, the current investment objectives and the standing of the Company.

Application of revenues from the shares issue

In the period from 1 January 2019 to the date of publishing this report, the Company has not carried out any shares issues.

Dialogue with shareholders and investors

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

A major form of the Company communication with its shareholders and investors is the Company's website at www.makarony.pl. In the "Strefa Inwestora" [Investors Zone] section the Company publishes current information important for the shareholders and investors, e.g. news, events, current financial results.

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

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

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

Operations of the Makarony Polskie Group

Main products and services

Brand products assortment

PASTA

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



The brand portfolio covers both the traditional egg-made pasta (rolled, offered as a bi-brad with Abak brand) and extruded pasta made of various types of flour, including flours originating from organic farming, as well as functional pasta of dietetic and health-promoting nature (100% spelt, rye or buckwheat flour pasta, or wholewheatl pasta with increased fiber content). Additionally, under the same brand a completely new product line has been introduced under the name of "W Kuchniach Świata" [World's Cuisines], inspired with the taste of the sunny Italy, based on the large pasta forms manufactured in 100% of hard durum wheat, intended for stuffing.



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 2019 the egg-made pasta had been enriched for new indexes of popular pasta forms: tagliatelle pasta of two ribbon widths. The advantage of such products is their quality, hand packing and broad culinary use.

Further novelties of the line are the popular forms of egg-made pasta dedicated mainly as an addition to soups: strands and ribbons of the characteristic irregular line resembling home-made and cut pasta. All of the new egg-made pasta varieties are offered under the flag brand of the Company, supported by the Abak brand.



Our 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.



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 and sandwich meat under the brands of Stoczek and Męska Rzecz and ready-made dishes on trays, SoFood. 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.



The offer of Męska Rzecz and Stoczek brands is supplemented with soups and canned meals, including ready-cooked meals in XXL size (approx. 800 g) for those who like to eat well in large quantities. The meals are not only tasty and satiating but also healthy – without preservatives, artificial colorings, flavorings or taste enhancers.

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, mainly in southern Poland

Moreover, the Tenczynek brand comprises fillings and salty stuffing for the bakery sector and gastronomy. This is a rapidly developing market. We assume, however, that the COVID-19 epidemic which occurred at the beginning of 2020 may have a negative impact on it.

FRUIT PRODUCTS

The fruit products assortment covered plum and other fruit jams (Stoczek and Tenczynek), syrups (Tenczynek), as well as dried fruit under the DeliSusz brand.

SO FOOD BRAND



Brand SoFood is a new brand in the offer of the Makarony Polskie Group which is dedicated to ready-made dishes on trays. The brand portfolio includes full dishes of fit cuisine and world cuisines. Ready-made dishes on trays have a clean and simple label, as well as convenient and easily opened packaging – READY to EAT. They are lightweight, packed on two-chamber trays, with a basis weight that fits "W sam raz na raz" [Perfect for one meal] motto. They can be stored at room temperature and their preparation time / heating in a microwave is only 3 minutes.

These dishes are produced on modern technological lines and will be the main direction of the development of Stoczek Natura Sp. z o.o.

NOVELLE BRAND

One of the Makarony Polskie Group companies is MP Trade Sp. z o.o., whose objective is to develop trade on its own account in products offered under the Novelle brand, both on the domestic and foreign markets.

Spółka MP Trade Sp. z o.o. MP Trade has its own product brand registered by the Polish Patent Office – Novelle. In 2019, under that brand the company offered tortellini pasta of various flavors, German type egg-pasta (Spätzle) as well as pasta made of leguminous plants flours (chickpeas, red lentils, or green peas). Moreover, concept work and production tests of new products were carried out, such as date spread, vegetable pastes, vegan lard and vegan meals. The strategic objective of MP Trade Sp. z o.o. is to further develop its own product offer under the Novelle brand.



The brand is going to be extended, and the offer will be constantly adjusted to the identified market trends and consumer needs.

Private label products assortment

Products identified with a third party brand are present in each segment of the Group commercial offer. As regards private label the Group is a leading manufacturer of rolled and extruded pasta, as well as an important manufacturer of meat and vegetable products, vegetable products and fruit products.

By developing the range of products under own brands of the chains, the Makarony Polskie Group responds to the customers' expectations and at the same time, it focuses on global trends present on the food market, and specifically: healthy and natural, convenience, local origin, and premium products.

The Makarony Polskie Group develops a range of products based on global tends present on the food market, and specifically: healthy and natural, convenience, local origin, and premium products.

The key method to attract and care for loyal customers is to offer premium products at affordable prices. The consumers have been more and more frequently searching for health-promoting food. In response to this trend, the Group is concentrating on products with a clean label, short composition, rich in protein, fiber, minerals, enriched with super additives, made of demanding leguminous flour. As part of the convenience trend, healthy ready-made dishes and snacks are developed, including "for one meal", in convenient packaging allowing for easy preparation and convenient consumption. The response to the premiumization trend is, among others, introducing pasta with the addition of quail eggs to the offer.

In categories other than pasta, we have improved our position in meat and ready-made dishes under the private labels of commercial chains, and we have entered the category of ready-made dishes on trays.

As part of the sustainable development, the Group is carrying out actions towards reducing the amount of plastic in packaging. The response to the needs of customers caring for animal welfare are works aimed at introducing to the offer pasta produced only with the addition of eggs from alternative farming, i.e. barn or free-range farming and BIO.

Considerable interest of large and small shop chains in the purchases of private label products from the Makarony Polskie Group confirms the high quality of products as well as the organizational efficiency of the Group and contributes to its competitive position and reliability.

Market environment

The sales markets of the Makarony Polskie Group may be divided into domestic market (including private label, traditional trade, modern trade, and B2B and institutions) and exports market (including sales to domestic intermediaries). The Group generated the following sales revenues in 2019:

PLN '000	2019	2018	YoY
Sales revenues	165,588	154,017	7.5%

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Private label

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

PLN '000	2019	2018	YoY
Sales revenues	94,842	78,903	20.2%

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

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

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

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

Modern trade and traditional trade

Another significant revenue source for the Group equivalent to 16.6% sales on the domestic market is the sales of the Group brands (Makarony Polskie, Sorenti, Stoczek, Tenczynek, Męska Rzecz, and Novelle) in the modern trade (MT) and traditional trade (TT) channels:

MT and TT (PLN '000)	2019	2018	YoY
Sales revenues	27,550	27,736	-0.7%

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

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

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

B2B and institutions

In 2019 B2B and institutions represented approx. 18.4% of the total revenues of the Group:

B2B and institutions (PLN '000)	2019	2018	YoY
Sales revenues	30,497	38,494	-20.8%

Sales in the B2B and institutions channel in 2019 amounted to nearly PLN 30.5 million and were by nearly PLN 8.0 million (-20.8%) lower than in 2018.

Within the B2B channel the Group runs the sales of pasta and semi-products, such as sweet fillings and salty stuffing for the bakery and confectionary sectors.

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

A relatively new form of the Group activities – manufacturing of sweet fillings and salty stuffing – has been positively received by the market from the very beginning. Stoczek Natura Sp. z o.o. invested in state-of-the-art machines to pack the fillings and stuffing. The manufacturing line complete with a thermoforming function enables offering products of very good quality with extended shelf life. The Group has been striving for attracting new promising recipients in that area.

Exports

Within the total revenues of the Group in 2019 exports represented 7.7%:

Exports (PLN '000)	2019	2018	YoY
Sales revenues	14,185	8,883	59.7%

Export sales of the Group accounted for approximately PLN 14.2 million in 2019 (through own trading team and through intermediaries). The result was higher by over 59% than in 2018. The main export market has been Ukraine, invariably. The Group has now been introducing a long-term strategy of attracting new sales markets. Direct relations established with the final recipients have positively translated into the level of margin generated.

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

In the years to come the Group plans to focus its activities on the European markets, mainly Ukraine, Belarus and Russia.

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In the years to come the Group plans to focus its activities on the European markets, mainly Ukraine, Belarus and Russia. For the performance of the objectives the Group has attracted partners on the local markets who support the Group in further sales development on those markets.

Major agreements

Agreement with Jeronimo Martins Polska SA

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

Agreements with the Lidl chain

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

Agreement on co-financing the project entitled "Implementation of the Results of R&D Works on Functional Food at Makarony Polskie SA"

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

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

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

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

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

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

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

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

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

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

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

Annexes to credit agreements with Santander Bank Polska SA

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

Credit agreements with Bank Gospodarstwa Krajowego

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

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

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

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

- the investment credit agreement amounting to PLN 4.8122 million. The credit is intended for modernization of the production plant in Stoczek Łukowski. The term of the security bond is 76 months and it expires in November 2025.

Factors important for the Group's development are:

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

– the revolving working capital credit agreement with PLN 2.5 million limit. The credit is intended for bridge financing of an EU subsidy. The term of the security bond is 21 months and it expires in April 2021.

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

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

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

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

Factors important for the Group's development

Factors affecting the future results of the Company and the Group

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

– development of R&D activity in the area of innovative products: functional, health-promoting food in Makarony Polskie SA, an interdisciplinary team was established, which in cooperation with scientific institutions works on developing innovative technologies for the production of new low-processed and health-promoting products that are easy to prepare. Design works have been carried out, which will make it possible to launch modern laboratories in 2020: physicochemical, microbiological, organoleptic and technological laboratories;

- systematic works are carried out on the implementation of new products diversifying the company's offer into production and sales. In 2019, new forms of pasta (spaghetti express, cavatappi, tagliatelle, pappardelle and conchiglie) and products made with the use of new raw materials such as quail egg mass and pumpkin seed flour were introduced to the Company' product portfolio;
- In the production plant in Rzeszów the extension of the production and storage building by a flour node building with equipment was completed, which included silo installations for flour and other loose raw materials, and a cold store for raw materials and liquid additives. The production line for rolled pasta in a wide range of forms (such as tagliatelle and papardelle) was launched – the line includes, among others, highly advanced technologically system of dosing ingredients and dry additives by weigh allowing for the production of pasta from several types of flour in different proportions, as well as a dosing device for micronutrients allowing for enriching the pasta composition with health-promoting ingredients. The investment which will allow for the production of long pasta forms with the addition of liquid raw materials, such as egg pulp was carried out. The project related to the adaptation of the electric, cooling and technological installation was completed by adjusting the parameters of the connections to the future increased production capacities of the production plant in Rzeszów. The installation of a modern line for production tests was commenced (the planned date of investment completion is 2020), which will allow for carrying out R&D works on a large scale and for further development of the Company's product offer, among others, by including health-promoting products
- the production plant in Częstochowa expanded its machine park with modern equipment for fast testing of raw materials and products in terms of moisture and fat content, which will allow for an immediate control of the raw material and its admission to production, and consequently, for increasing the production flexibility. In the plant the cold store to store raw materials requiring low temperatures during storage was expanded. These investments will allow for increasing the flexibility and safety of production, as well as for maintaining continuity of production during periods of full utilization of production capacity;
- in Stoczek Natura Sp. z o.o. research is performed to adapt to global food production trends: convenience products, health-promoting products, innovative forms of packaging of offered products;
- In the production plant in Stoczek Łukowski in 2019 investments connected with the installation of a new line for production of ready-made dishes on trays were made (currently the offer includes several lines belonging to this category: world cuisines, regional and vege/fit cuisines). The modernization of the premises in the area of the production hall is carried out in connection with the purchase of a new machine park aimed at, among others, increasing the automation and efficiency of conducted production processes. The project of implementing innovative solutions through the

modernization of the line for the production of ready-made dishes in jars and cans is carried out.

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

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

of consumers. The Company completed the supported investment project in February 2020 and submitted an application for final project settlement to the institution granting the support;

- project of Stoczek Natura Sp. z o.o. entitled "Introduction of product innovation to increase the competitiveness of Stoczek Natura Sp. z o.o. ", implemented as part of the Operational Program Eastern Poland for the years 2014-2020 from Measure 1.4. Pattern for competition, assumes the development of the company, increase its competitiveness and innovation, by increasing the company's potential in the skillful management of design and increasing the use of design in business. The planned effect of the project is the introduction of new innovative products on trays to the company's offer, implementation of product, process and marketing innovation, purchase of a modern technological line for the production of ready-made dishes on trays, extension of the customer group, increase in sales revenue, automation of production processes, increase of awareness of design management in organizational structures, consistent company communication in the field of visual identification for the company and diversification of plant production through the introduction of previously unproduced products. The Company completed the supported investment project in August 2019. By fulfilling all obligations resulting from the co-financing agreement, the Company fully settled the project (and it received the final refinancing of incurred expenses), which took place in January 2020. Since Q.1, 2020 the Company’s offer includes 9 indices from the category of ready-made dishes on trays. There are products ready to eat, they can be reheated in a microwave or in a traditional way. They were positively received by the customers. This new, dynamically developing category, that is ready-made dishes on trays, opens up new opportunities of sales development for the Company, especially on the export markets. The revenues planned by Stoczek Natura Sp. z o.o. in this segment in 2020 are over PLN 4.0 million.

Activity development in the private label segment

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

Development of B2B sales channels and Institutions

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

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

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

Exports development

- focusing on European markets, including in particular Ukraine, where the Group systematically develops its cooperation with networks,
- changing the Group's operating model in the Egyptian, Middle East and Africa markets to improve its efficiency - the Group offers products under the Sorenti brand for which the majority of exports are made,
- systematic increase in the number of customers on foreign markets, especially in the European Union,

- intensification of communication with current and potential recipients through the participation of, among others in trade fairs and organization of B2B meetings in target markets,
- acquiring and implementing projects concerning deliveries under the own recipient's brand,
- development of the product offer by offering functional products on foreign markets, e.g.: whole wheat pasta with high fiber content, spelled pasta, buckwheat pasta, vegetable pasta 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.

Risks and threats important for the Group development

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

Risk of market trends changes

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

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

Competition risk

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

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

Risk of dependence on the recipients

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

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

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

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

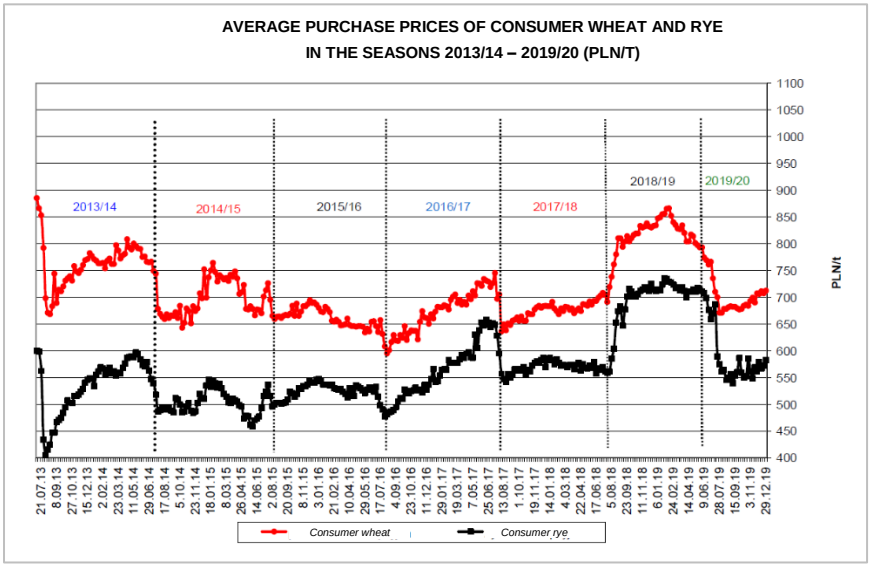
Risk related to changes in raw materials prices

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

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

In the first half of Q.1, 2019, flour purchase prices were stable and remained at a level similar to that of Q.4, 2019. The outbreak of coronavirus epidemic in Europe in the second half of Q.1 brought some nervousness to the market. The increased demand for products with long shelf life, such as flour, as well as difficulties in international trade (e.g. reintroduction of border controls and closure of a part of border crossings, extended/uncertain delivery dates) translated into the price increase on the market of cereals and flour. The forecasts indicate that this is rather not a long-term trend but a temporary turmoil caused by the epidemic. However, taking into account that the wheat production is highly sensitive to unpredictable weather conditions, whereas the prices of cereals and flour are highly sensitive to price speculation resulting, among others, from natural disasters, such as the current COVID-19 epidemic, it should be assumed that higher prices and a possible further upward trend in prices may continue in the perspective of the next harvest, i.e. until Q.3, 2020. The Company is monitoring on a regular basis the current forecasts concerning both the domestic market and consumer wheat price quotations on the world markets, and will carry out further actions, taking into account current trends.

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



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

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

Stoczek Natura Sp. z o.o. is a manufacturer of fruit and vegetable products (including jams and salads) as well as ready-cooked meals. The prices of fruit and vegetables are highly dependent on weather conditions. The Company cooperates with the domestic suppliers of fruit and vegetables as well as an extended base of foreign suppliers of key raw materials, which gives the company better possibilities to obtain cheap raw materials of good quality. The purchase of fruit and vegetables is carried out seasonally, in the months in which the prices are the lowest. In need the purchased raw materials are stored in the in-house warehouses and cold stores. Stoczek Natura Sp. z o.o. is exposed to the growth of raw materials prices resulting from various abnormal weather conditions. Striving for the risk mitigation the company maintains an extended base of key raw materials suppliers. Additionally, in order to optimize the plant operation Stoczek Natura Sp. z o.o. has planned to outsource production of those categories of fruit and vegetable products whose market share does not guarantee to the company the optimal use of the possessed production capacity and

purchase of raw materials at attractive prices. The Company monitors on a regular basis the prices and adjusts the value of its products to price pressure from the raw material suppliers

Risk of changing legal and tax environment

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

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

Risk related to foreign exchange rates fluctuation

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

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

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

Groups/categories of financial instruments	Carrying amount as at 31.12.2019 PLN '000	Currency exposure as at 31.12.2019 PLN '000	EUR PLN '000	USD PLN '000
Financial assets				
Cash and cash equivalents	718	312	308	4
Receivables from deliveries and services	25,074	1,453	1,453	0
Financial liabilities				
Liabilities from deliveries and services	33,673	7,399	7,399	0

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

Groups/categories of financial instruments	EUR		USD	
	5%	-5%	5%	-5%
	Impact on the financial result PLN '000		Impact on the financial result PLN '000	

Financial assets				
Cash and cash equivalents	15.4	-15.4	02	-0.2
Receivables from deliveries and services (gross)	72.6	- 72.6	0	0
Financial liabilities				
Liabilities from deliveries and services	- 369.9	369.9	0	0

Risk related to payroll pressure

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

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

Interest rate risk

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

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

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

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

Currency	Interest rate	Credit balance	Including

			Short-term credits	Long-term credits
PLN	WIBOR + bank margin	34,495	16,500	17,995

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

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

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

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

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

Risk of insolvency of contractors

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

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

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

Financial position of the Makarony Polskie Group

The consolidated financial statements were prepared based on IFRS, in accordance with the going concern assumption with regard to the Group companies in foreseeable future and in reference to the scope of activities which is not going to change significantly. The Group did not carry out any activities which would have been abandoned in 2019.

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

Companies subject to consolidation:

as at 31 December 2019	**Stoczek Natura Sp. z o.o.**	**MP Trade Sp. z o.o.**
Nature of relationship	direct subsidiary	direct subsidiary
Consolidation method	full	full
Control assumption date	1 June 2007	28 September 2015
% of share capital held	100%	100%

Results discussion

The selected financial data of the Makarony Polskie Group as at 31 December 2019, expressed in PLN thousands, are as follows:

(PLN '000)	01.01.2019-31.12.2019	01.01.2018-31.12.2018
Net sales	**165,588**	**154,017**
Net sales of products and services	158,714	147,959
Net sales of merchandise and materials	6,874	6,058
Prime cost	**128,077**	**119,560**
Cost of manufacturing of products and services sold	122,179	114,170
Value of merchandise and materials sold	5,898	5,390
Gross profit (loss) on sales	**37,511**	**34,457**
Costs of sales	21,303	19,715

General management costs	7,104	6,920
Other revenues	1,371	1,562
Other costs	3,564	1,064
Profit (loss) on continued operations	**6,911**	**8,320**
Financial revenues	26	22
Financial costs	1,407	1,035
Gross profit	**5,530**	**7,307**
Income tax – current part	1,775	1,376
Income tax – deferred part	-48	126
Net profit (loss) on continued operations	**3,803**	**5,805**
EBITDA (EBIT + depreciation)	13,536	14,084

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

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

The consolidated revenues in 2019 amounted to PLN 165.6 million and were higher by approximately 7.5% (PLN +11.6 million) compared to 2018.

The largest growth of sale was recorded by the Group in the segment of – growth by approx. PLN 16.6 million (+16.3% YoY) which was a result of good reception by customers of new products in the largest retail chains and high dynamics of export sales growth, as well as in the segment of fruit preserves growth by PLN 0.9 million YoY (+11.1% YoY) as a result of acquiring new private label contracts for jam delivery. Sales decreases in the segment of meat and vegetable preserves (by PLN 5.7 million YoY), vegetable preserves and stuffing (PLN 0.9 million) were caused respectively by lack of institutional contract for the delivery of ready-made dishes (in the first half of 2018 a one-off contract was performed) and decrease in the sales of marinades under the Tenczynek brand.

The costs of products, services, merchandise and materials sold in 2019 amounted to PLN 128.1 million (increase by about 7.1%).

In 2019 the Makarony Polskie Group generated gross profit on sales at the level of about PLN 37.5 million (growth by PLN 3.1 million compared to 2018), with gross return on sales at the level of roughly 22.7% (22.4% in 2017).

The result on operating activities (EBIT) in 2019 was PLN 6.9 million, compared to PLN 8.3 million in 2018, i.e. 16.9% growth. Profitability at EBIT level amounted to 4.2% (compared to 5.4% in 2018).

Decrease in operating profit was caused by a write-down of the Tenczynek brand in the amount of PLN 2.6 million. Excluding the above operation, the operating profit would amount to PLN 9.6 million, which would be a growth compared to the result of the previous year by PLN 1.2 million, i.e. 14.8% (Profitability at EBIT level would be 5.8%).

Net profit in 2019 amounted to PLN 3.8 million and is lower than the profit in 2018 by PLN 2.0 million (+34.5%). Sales profitability calculated at the net profit was 2.3% (compared to 3.8% in 2018). Without taking into account the write-down on the Tenczynek brand, the net profit would be PLN 6.4 million and would be by PLN 0.6 million, i.e. 11.0% higher than in the previous year (profitability at the level of net profit would be 3.9%).

In 2019 the Group recorded EBITDA at the level of approx. PLN 13.5 million compared to approx. PLN 14.1 in 2018, which gives a drop by PLN 0.6 million YoY, i.e. 3.9%. EBITDA profitability in 2018 was 8.2% compared to 9.1% in 2018. Without taking into account a write-down on the Tenczynek brand, EBITDA would be PLN 16.2 million and would by PLN 2.1 million, i.e. 14.9% higher than in the previous year (profitability at EBITDA level would be 9.8%)

Consolidated statement of other comprehensive income, net – hedge accounting

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

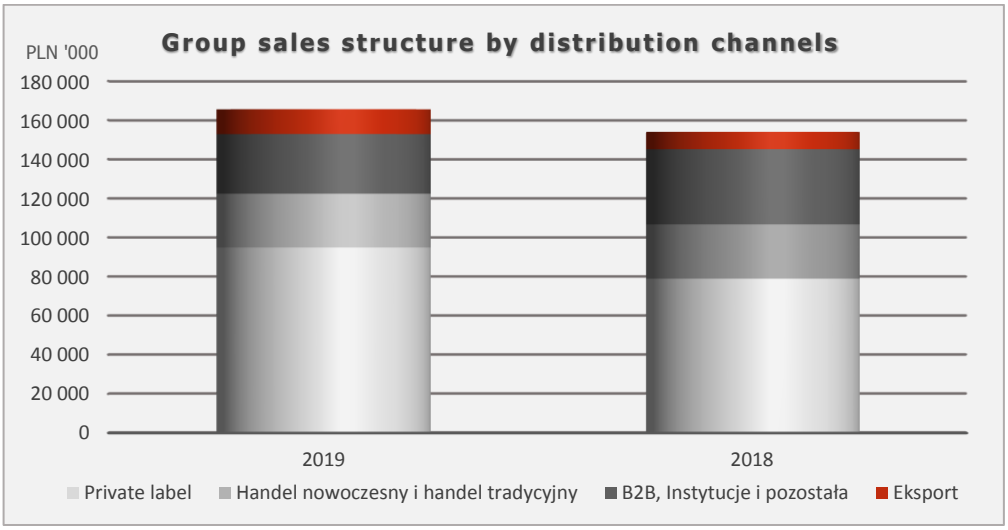
Generated results vs projection

The Makarony Polskie Group has not published any financial projections for the reporting year 2019.

Operating segments

Sales structure by distribution channels at the Makarony Polskie Group

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



Sales revenues by operating segments

(PLN '000)	01.01- 31.12.2019	01.01- 31.12.2018
Pasta	118,194	101,635
Meat and vegetable products	26,775	32,410
Vegetable products and stuffing	1,969	2,832
Fruit products	8,632	7,767
Other	10,017	9,373
Total	**165,587**	**154,017**

Sales revenues of the Makarony Polskie Group in 2019 amounted to PLN 165.6 million and were by roughly PLN 11.6 million higher than in the same period in 2018.

The value of sales in the category of pasta grew by PLN 16.6 million to PLN 118.2 million in 2019. The main changes resulted from good reception by customers of new products in the largest retail chains (e.g. pasta made in 100% of vegetable flour) and high dynamics of export sales growth.

Factors and events affecting 2019 results:

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

Another segment where high growth rate was observed was that of fruit products. In the analyzed period, it grew by PLN 0.9 million to nearly PLN 8.6 million, which was caused by the development of jam sales under chain brand and the Stoczek brand.

The sales of the category of meat and vegetable preserves decreased in the analyzed period by approx. PLN 5.7 million to approx. PLN 26.8 million. The decrease of approx. 17.4% (2019 compared to 2018) resulted from lack of institutional contract for the delivery of ready-made dishes (in the first half of 2018 a one-off contract was performed). In this category, the Group recorded a sales growth under own brands and retail chain brands (+PLN 1.7 million YoY), but it did not fully compensate for the lack of the above-mentioned contract.

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

Factors and events, including atypical ones, affecting 2019 results

Extension of product portfolio

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

Replying to the market trends, in 2019 the Makarony Polskie Group continued the strategy of portfolio optimization and its supplementation for high-margin products of the premium segment. Work is pending on new health-promoting products (e.g. gluten-free, organic, fiber-rich, or reduced-hydrocarbons products), flavored pasta, or premium products (e.g. new shapes and forms of pasta, innovative packaging).

Replying to the trends in health-promoting products, focusing on vegetable and high-protein pastas, MP Trade Sp. z o.o. introduced in its portfolio, among other things, pasta made of leguminous plants flours (chickpeas, red lentils, green peas).

Also Stoczek Natura Sp. z o.o. has been systematically introducing new products to its portfolio. In 2019, the whole concept of producing ready-made dishes on trays was developed, and the technology purchased by the Company allowed for introducing these dishes on the market. The convenience trend is developing very dynamically in Poland, therefore, the category of ready-made dishes on trays should be treated as the one having great growth potential. The introduced dishes on trays are composed in such a way as to

meet the needs of customers who appreciate the high level of the purchased product and their purchasing choices are not mainly price-driven.
The Group portfolio will be further supplemented with products of other manufacturers, complementary to the basic product assortment.

Export sales development

The Group's export sales in 2019 exceeded PLN 12.6 million (performed with its own sales team and intermediaries). It was a higher result than the one reached in 2018 by approx. 43%. The main export market is Ukraine. The Company is currently implementing a long-term strategy to acquire new markets. The established direct relations with the final recipients positively translate into the level of the realized margin. In 2019, the Makarony Polskie Group operated mainly on European markets (Ukraine, Belarus, Slovakia, Germany, Serbia) and to a lesser extent on African (Egypt, RSA), Asian (Hong Kong, Iraq) and the USA markets.

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

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

In 2019 Stoczek Natura Sp. z o.o. focused its activities on implementing new technologies in the plant. These activities allowed the Company, among others, for appearing in a new, dynamically developing category of ready-made dishes on trays (Q.1, 2020). This category opens up new possibilities of sales development for the Company, especially on the export markets. The revenues planned in this segment by the Company in 2020 are above PLN 4.0 million.
Currently, the Company's offer includes 9 products from this category. The dishes are ready for consumption; they can be heated in a microwave or in a traditional way. They were positively received by customers.

At the same time, the Company revised its existing product portfolio. Due to unsatisfactory results of activities in terms of repositioning the Tenczynek brand in the direction of the premium shelf, low development potential of the category and high costs of production outsourcing of vegetable products and fruit syrups. It was decided to gradually withdraw these products from the Group's offer.

In connection with the above, at the beginning of April 2020 the Management Board of the Stoczek Natura Sp. z o.o. decided, as at 31 December 2019, to make a revaluation write-down for impairment of an asset in the form of the Tenczynek brand in the amount of PLN 2,641 thousand.

As at 31 December 2019 the book value of the asset of the Tenczynek brand amounts to PLN 1,537 thousand (previously it was PLN 4,178 thousand) and of the Tenczynek trademark PLN 350 thousand. The write-down in the amount of PLN 2,641 thousand is included in the consolidated financial statements of the Capital Group for 2019 under other operating costs and resulted in the decrease in the consolidated result on continued operations, gross result and net result by PLN 2,641 thousand.

The above-mentioned one-off operation is of an accounting nature and shall not affect the liquidity situation of Stoczek Natura Sp. z o.o. or the Makarony Polskie Group.

Reorganization of the activity of MP Trade Sp. z o.o.

In 2019 MP Trade Sp. z o.o. was carrying out consistent activities aimed at building the value of the Novelle brand by expanding the product portfolio (new products will be gradually introduced to the Novelle brand portfolio), intensifying marketing activities (including the support for the Parent Company Makarony Polskie SA in this area), as well as proper brand positioning.

In 2019 MP Trade Sp. z o.o. achieved lower than expected sales revenue dynamics – it was a result of delayed implementation of planned investments concerning, among others, the introduction of vegetable pasta.

In the subsequent years the Company plans further development of the Novelle brand in the following product categories: pasta, including high-protein and vegetable pasta, as well as ready-made vegetarian dishes. Expanding the Novelle brand with new plant products desirable on the market aims at increasing the brand value and sales revenue. The Novelle brand will be developed towards increasing the brand visibility by creating a distinctive brand, with a consistent concept and wide product potential.

Structure of assets and equity/liabilities

The balance-sheet total of the Group as at 31 December 2019 amounted to PLN 173.6 million, compared to PLN 145.5 million as at 31 December 2018.

Structure of the Group assets and equity/liabilities

(PLN '000)	31 December 2019	31 December 2018
FIXED ASSETS	**126,942**	**101,160**
Tangible fixed assets	108,814	84,471
Fixed assets – IFRS-16	4,091	0
Investment properties	603	603
Goodwill	5,949	5,949
Other intangible assets	7,363	9,945
Other long-term financial assets	0	0
Deferred income tax assets	2	1
Other long-term assets	120	191
CURRENT ASSETS	**46,685**	**44,300**
Inventories	20,515	18,157
Short-term receivables	25,074	25,427
Deferred income tax receivables	17	0
Loans granted	0	0
Cash and cash equivalents	718	359
Other short-term assets	361	357
FIXED ASSETS HELD FOR SALE	**0**	**0**
TOTAL ASSETS	**173,627**	**145,460**

(PLN '000)	31 December 2019	31 December 2018
EQUITY CAPITAL	**79,988**	**78,498**
Share capital	27,750	27,750
Supplementary capital	37,155	46,095
Reserve capital	12,000	0
Retained profit/loss (profit/loss from previous years)	- 720	-1,152
Net profit/loss	3,803	5,805

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

As at 31 December 2019 fixed assets were worth roughly PLN 126.9 million (73% of total assets) compared to PLN 101.2 million at the end of 2018 (25.5% growth vs the end of 2018). The increase in the value of fixed assets resulted from the application of IFRS 16, i.e. valuation and disclosure of lease agreements and perpetual usufruct rights (+PLN 4.1 million), as well as carrying out the investments mainly in the production plant in Rzeszów (in Makarony Polskie SA) and in the production plant in Stoczek Łukowski (in Stoczek Łukowski Sp. z o.o.)

As at 31 December 2019 current assets were roughly PLN 46.7 million and grew by approx. 5.4% in comparison to the end of 2018 (approx. PLN 44.3 million). The increase in inventories by approx. PLN 2.4 million, i.e. by approx. 13.0% had the greatest impact on the change in current assets.

Equity as at the balance-sheet date amounted to approx. PLN 80.0 million, constituting approx. 46% of the value of equity and liabilities and it increased by 1.9% in comparison to PLN 78.5 million at the end of 2018. The change was caused by the achieved profit for 2019 in the amount of PLN 3.8 million and the allocation of part of the net profit for 2018 to dividend in the amount of PLN 2.3 million.

Long-term liabilities amounted to PLN 39.4 million and and they grew by 81.5% (from PLN 21.7 million) in comparison to the end of 2018, due to the utilization of credit limits granted in reference to the performance of investments projects in Rzeszów and Stoczek Łukowski, as well as the change in schedule and term of long-term credit agreements (+PLN 7.4 million), increase in deferred income as a result of subsidies received after settling the projects covered by the EU support (+PLN 7.0 million) and due to the application of IFRS 16 (+PLN 3.3 million), i.e. valuation and disclosure of lease agreements and perpetual usufruct rights.

Short-term liabilities as at 31 December 2019 amounted to PLN 54.3 million and increased in comparison to the end of 2018, i.e. the amount of PLN 45.3 million. The biggest changes in short-term liabilities are: an increase in the value of the other liabilities item (growth by approx. PLN 5.7 million, i.e. approx. 20.3%), the application of IFRS 16 (+PLN 0.9 million), i.e. the valuation and disclosure of lease agreements and perpetual usufruct rights in the short-term part, as well as the increase in the short-term credits item (growth by PLN 2.3 million, i.e. approx. 16.4%).

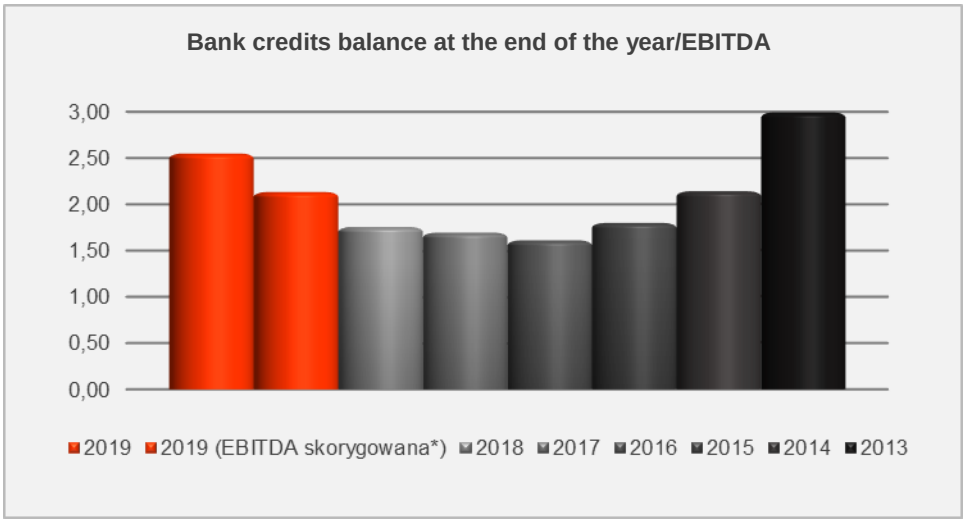
Solvency and management of the Group financial assets and financial risk

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

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

- generation of positive cash flows on operating activities of more than PLN 16.1 million in 2019,
- generation of EBITDA at the level of PLN 13.5 million in 2019 (EBITDA increased by a write-down of the Tenczynek brand amounts to PLN 16.2 million),
- carrying out some of the purchases without availing of trade credit by the Group, which results in a financial advantage,
- performance of investment projects and dividend payment in 2019 amounting to PLN 2.3 million (PLN 2.3 million in 2018),
- maintenance of the balance of bank credits to EBITDA ratio at a safe level at the end of 2019 (a slight increase in the ratio is caused by the implementation of large investments in the Group):

The ratio analysis reflects good financial standing of the Makarony Polskie Group in 2019 as regards profitability, capacity to pay liabilities as well as security of financing current and investment activities.



*EBITDA adjusted = profit on operating activities + depreciation + write-down 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.

Deposits and capital investments

In 2019 the Makarony Polskie Group did not make any capital investments.

Ratio analysis

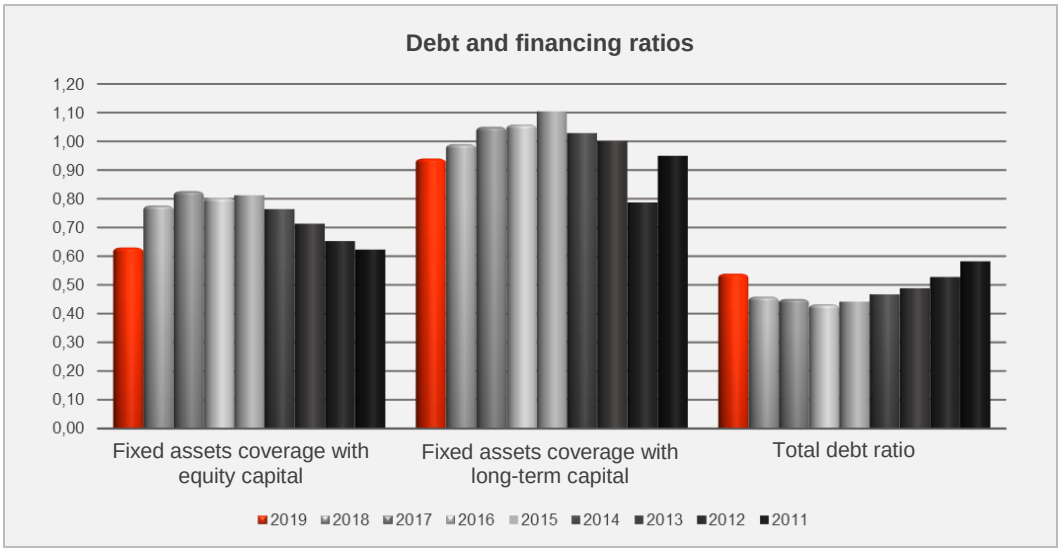
The return, liquidity and debt ratios analysis reflects stable financial standing of the Makarony Polskie Group in 2019 compared to previous periods as regards profitability, capacity to pay liabilities as well as security of financing current and investment activities.

The level of return and cash flows generated by the Group enabled it to pay out dividend to shareholders in 2018 in the amount of PLN 2.3 million, carry out many investments, purchase some raw materials at attractive prices without trade credit and maintain safe debt level, among other things.

Debt and financing ratios

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

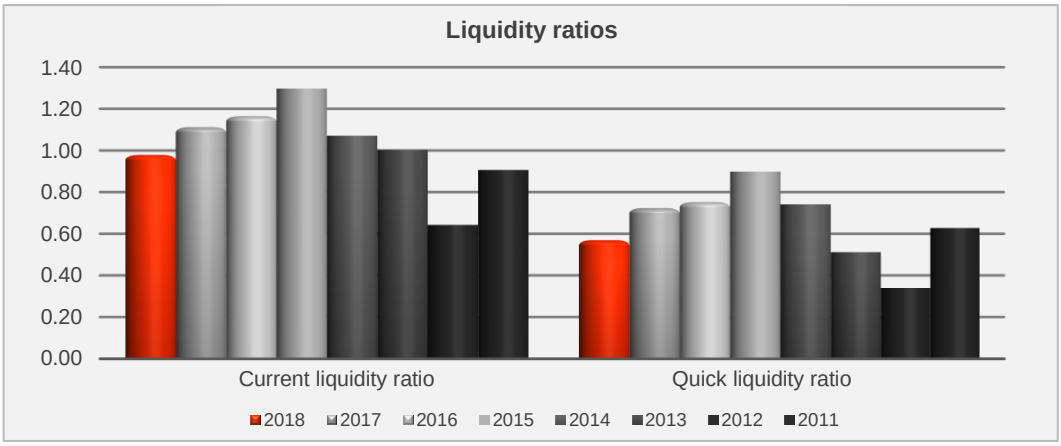
Fixed assets coverage with long-term capital *[(Equity capital + long-term liabilities)/fixed assets]*	0,94	0,99	1,05	1,06	1,10	1,03	1,00	0,79	0,95
Total debt ratio *[Total liabilities/total assets]*	0,54	0,46	0,45	0,43	0,44	0,47	0,49	0,53	0,58



Liquidity ratios

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

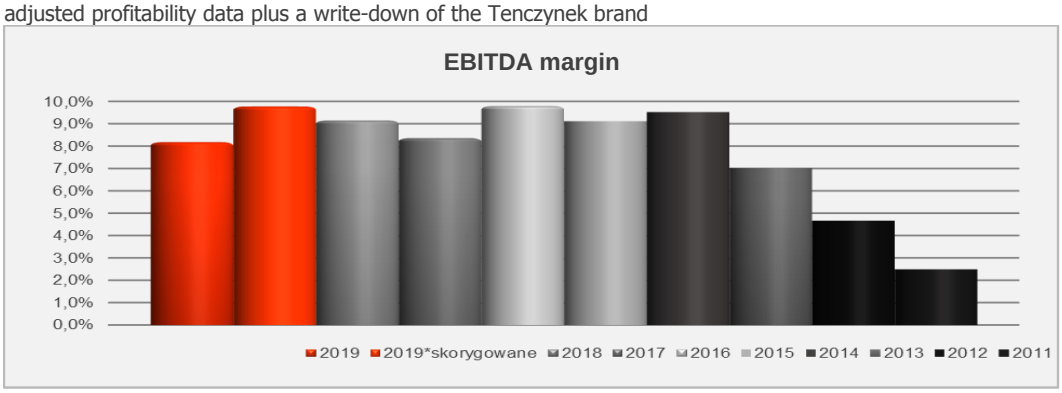
* The decrease in the financial liquidity ratios in 2019 results, among others, from the implementation of investments covered by subsidies. In the subsidiary Stoczek Natura Sp. z o.o. the expenses partly covered by the subsidy are financed with short-term capital (the subsidy was received after the balance sheet date).

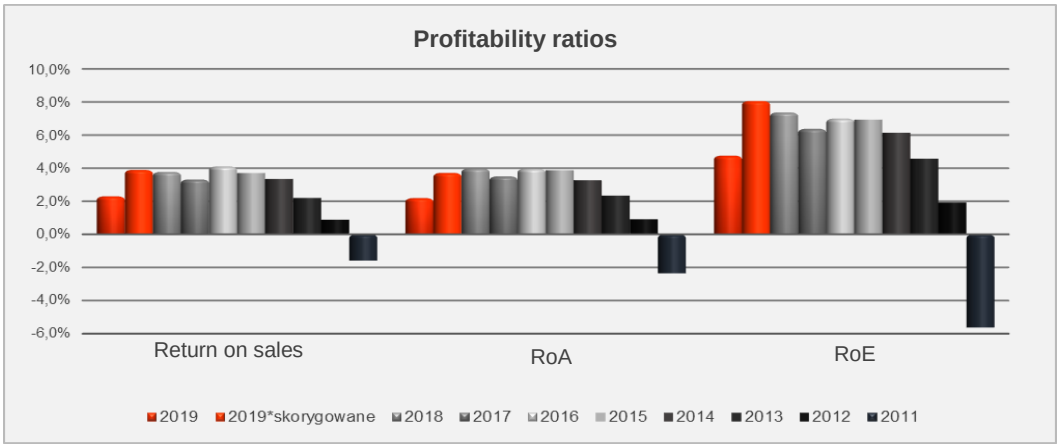


Profitability ratios

	2019	2019*	2018	2017	2016	2015	2014	2013	2012	2011
Sales profitability [Gross profit (loss) on sales/net sales]	22.7%	22.7%	22.4%	22.2%	23.3%	21.0%	22.1%	21.9%	18.5%	11.1%
Operating profit margin [Profit (loss) on continued operations/net sales]	4.2%	5.8%	5.4%	5.0%	6.1%	5.8%	6.2%	3.9%	1.1%	-0.1%
	3.3%	4.9%	4.7%	4.2%	5.3%	4.9%	4.7%	2.1%	0.2%	-1.3%
Return on sales [Net profit (loss)/net sales]	2.3%	3.9%	3.8%	3.3%	4,.1%	3.7%	3.3%	2.2%	0.9%	-1.6%
ROA [Net profit (loss)/total assets]	2.2%	3.7%	4.0%	3.5%	4.0%	3.9%	3.3%	2.3%	0.9%	-2.4%
ROE [Net profit (loss)/equity capital]	4.8%	8.1%	7.4%	6.4%	7.0%	6.9%	6.1%	4.6%	1.9%	-5.6%
EBITDA margin [EBITDA/net sales]	8.2%	10.9%	9.1%	8.4%	9.8%	9.1%	9.5%	7.0%	4.7%	2.5%

* adjusted profitability data plus a write-down of the Tenczynek brand





Other financial information

Information about credit and factoring agreements signed and terminated

In the reporting year 2019 parties to credit and factoring agreements were Makarony Polskie SA and Stoczek Natura Sp. z o.o.

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

– Credit in the current account at Santander Bank Polska SA

Credit conditions	31 December 2018
Credit agreement value	PLN 5,000 thousand
Credit period	18.10.2013 – 31.05.2020
Interest rate	WIBOR 1M + bank margin compliant with the standards applied by the bank
Credit balance	PLN 2,172 thousand
Repayment schedule	One-off at the date of maturity
Credit collateral	– Joint mortgage up to PLN 33,000,000 on properties entered in: a) land and mortgage register No. KW RZ1Z/00076860/5 located in Rzeszów and land and mortgage register No. KW PL1P/00094893/6 located in Płock, including the assignment of rights under the property insurance policy, b) land and mortgage register No. KW PL1P/00097530/5, land and mortgage register No. KW PL1P/00114158/9 and land and mortgage register No. KW PL1P/00097363/3 (on shares held) in Płock; – blank promissory note issued by the Company and promissory note declaration,

	– registered pledge on inventories of the value not lower than PLN 5,000,000, including the assignment of rights under the registered pledge insurance policy, – security bond by Stoczek Natura Sp. z o.o.; – declaration on submission to enforcement, made pursuant to Article 777 of the Code of Civil Procedure in the form of a notarial deed.

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

– Investment credit at Santander Bank Polska SA

Credit conditions	**31 December** 2019
Credit agreement value	PLN 13,849 thousand
Credit period	18.10.2013 – 30.12.2023
Interest rate	WIBOR 3M + bank margin compliant with the standards applied by the bank
Credit balance	PLN 5,077 thousand
Repayment schedule	The credit will be repaid in 49 monthly instalments in the following amounts: 48 instalments of PLN 105 thousand each, plus the last 49th settlement instalment in the amount of PLN 204,000.
Credit collateral	– Joint mortgage up to PLN 17,000 on properties entered in: a) land and mortgage register No. KW RZ1Z/00076860/5 located in Rzeszów and land and mortgage register No. KW PL1P/00094893/6 located in Płock, including the assignment of rights under the property insurance policy, b) land and mortgage register No. KW PL1P/00097530/5, land and mortgage register No. KW PL1P/00114158/9 and land and mortgage register No. KW PL1P/00097363/3 (on shares held) in Płock; – registered pledge on fixed assets (production lines at the Rzeszów plant) including the assignment of rights under the the object of the pledge, – blank promissory note issued by the Company and promissory note declaration, – civil-law security bond by Stoczek Natura Sp. z o.o., – declaration on submission to enforcement, made pursuant to Article 777 of the Code of Civil Procedure in the form of a notarial deed.

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

- it extended the repayment date of the liability until 30 December 2023 (the previous date was 30 April 2020),
- it introduced a new repayment schedule in such a manner that the credit will be repaid in 49 monthly instalments, in the following amounts: 48 instalments of PLN 105 thousand each and the last 49th settlement instalment of PLN 204 thousand,

- it adjusted the value of collateral to the credit exposure of the Bank,
- it standardized the liabilities of the Company in accordance with other credit agreements with the Bank (e.g. standardizing a definition of covenants).

- EU investment credit at Santander Bank Polska SA

Credit conditions	31 December 2019
Credit agreement value	PLN 12,121,000
Credit period	07.02.2017 - 28.12.2023
Interest rate	WIBOR 3M + bank margin compliant with the standards applied by the bank
Credit balance	PLN 7,801,000
Repayment schedule	The credit will be repaid in 37 monthly instalments in the following amounts: 36 instalments in the amount of PLN 50 thousand, the 37th in the amount of PLN 9,061 thousand, EU refinancing granted will decrease the balloon instalment
Credit collateral	– Joint mortgage up to PLN 18,200 thousand on properties entered in: a) land and mortgage register No. KW RZ1Z/00076860/5 in Rzeszów and land and mortgage register No. KW PL1P/00094893/6 in Płock including the assignment of rights under the property insurance policy, b) land and mortgage register No. PL1P/00097530/5, land and mortgage register No. PL1P/00114158/9 and land and mortgage register No. PL1P/00097363/3 (on shares held) in Płock; – registered pledge on a semi-industrial line for tests with accessories, including the assignment of rights under the pledge object policy, – blank promissory note issued by the Company and promissory note declaration, – civil-law security bond by Stoczek Natura Sp. z o.o., – declaration on submission to enforcement, made pursuant to Article 777 of the Code of Civil Procedure in the form of a notarial deed.

The credit is intended for financing the investment project "Creation of the Research and Development Center of Pasta Industry at Makarony Polskie SA"

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

- it extended the credit limit disbursement period until 30 September 2020 (the previous date was 31 March 2020),
- it extended the repayment date of the liability until 28 December 2023 (the previous date was 28 February 2022),
- it introduced a new repayment schedule in such a manner that the credit will be repaid in 37 monthly instalments, in the following amounts: 36 instalments of PLN 50

thousand, the 37th instalment of PLN 9,061 thousand, the received refinancing will reduce the balloon instalment,

- it standardized the liabilities of the Company in accordance with other credit agreements with the Bank (e.g. standardizing a definition of covenants).

– EU investment credit at Santander Bank Polska SA

Credit conditions	31 December 2019
Credit agreement value	PLN 8,000 thousand
Credit period	15.09.2017 - 31.12.2023
Interest rate	WIBOR 3M + bank margin compliant with the standards applied by the bank
Credit balance	PLN 1,558 thousand
Repayment schedule *	The credit will be repaid in 49 capital instalments, of which 48 instalments in the amount of PLN 33 thousand, the 49th instalment in the amount of PLN 79 thousand
Credit collateral	– Joint mortgage up to PLN 2,500 thousand on properties entered in: a) land and mortgage register No. KW RZ1Z/00076860/5 in Rzeszów and land and mortgage register No. KW PL1P/00094893/6 in Płock including the assignment of rights under the property insurance policy, b) land and mortgage register No. KW PL1P/00097530/5, land and mortgage register No. KW PL1P/00114158/9 and land and mortgage register No. KW PL1P/00097363/3 (on shares held) in Płock; – registered pledge on the acquired line under the grant project including the assignment of rights under the pledge object policy, – blank promissory note issued by the Company and promissory note declaration, – declaration on submission to enforcement, made pursuant to Article 777 of the Code of Civil Procedure in the form of a notarial deed.

The credit is intended for financing the investment project entitled "Implementation of the Results of R&D Works on Functional Food at Makarony Polskie SA

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

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

– Working capital credit at Santander Bank Polska SA

Credit conditions	31 December 2019
Credit agreement value	PLN 3,000 thousand
Credit period	30.09.2019 - 30.09.2022
Interest rate	WIBOR 1M + bank margin compliant with the standards applied by the bank
Credit balance	PLN 3,000 thousand
Repayment schedule	The credit will be repaid in 33 monthly instalments, starting from 31 January 2020 in the amount of PLN 0.09 million
Credit collateral	– joint mortgage up to PLN 4,500 thousand on properties entered in: a) land and mortgage register No. KW RZ1Z/00076860/5 in Rzeszów and land and mortgage register No. KW PL1P/00094893/6 in Płock, including the assignment of rights under the property insurance policy, b) land and mortgage register No. KW PL1P/00097530/5, KW PL1P/00114158/9 and KW PL1P/00097363/3 (on shares held) in Płock; – registered pledge on fixed assets (production lines in the plant in Rzeszów), including the assignment of rights under the pledge object policy, – blank promissory note issued by the Company and promissory note declaration, – declaration on submission to enforcement, made pursuant to Article 777 of the Code of Civil Procedure in the form of a notarial deed.

– Revolving credit at Santander Bank Polska SA

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

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

– Credit in the current account at Bank Gospodarstwa Krajowego

Credit conditions	31 December 2019
Credit agreement value	PLN 6,000 thousand
Credit period*	14.06.2013 – 30.06.2020
Interest rate	WIBOR 3M + bank margin compliant with the standards applied by the bank
Credit balance	PLN 5,568 thousand
Repayment schedule	One-off at the date of maturity
Credit collateral	– joint mortgage up to PLN 16,500 thousand on properties entered in:

	a) land and mortgage register No. KW CZ1C/00111425/8 in Częstochowa, including the assignment of rights under the property insurance policy, – b) land and mortgage register No. KW LU1U/00022979/2 in Stoczek Łukowski (property of Stoczek Natura Sp. z o.o.) including the assignment of rights under the property insurance policy, – blank promissory note issued by the Company and promissory note declaration, – power of attorney to dispose of the current account at the Bank, – security bond by Stoczek Natura Sp. z o.o., – declaration on submission to enforcement, made pursuant to Article 777 of the Code of Civil Procedure in the form of a notarial deed (up to PLN 12 million).

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

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

Credit conditions	31 December 2019
Credit agreement value	PLN 5,000 thousand
Credit period*	30.06.2015 – 29.06.2020
Interest rate	WIBOR 3M + bank margin compliant with the standards applied by the bank
Credit balance	PLN 500 thousand
Repayment schedule*	20 equal, quarterly capital instalments in the amount of PLN 0.25 million starting from 30 September 2015 to 29 June 2020.
Credit collateral	– joint mortgage up to PLN 16,500 thousand on properties entered in: a) land and mortgage register No. KW CZ1C/00111425/8 in Częstochowa including the assignment of rights under the property insurance policy, – b) land and mortgage register No. KW LU1U/00022979/2 in Stoczek Łukowski (property of Stoczek Natura Sp. z o.o.) including the assignment of rights under the property insurance policy, – blank promissory note issued by the Company and promissory note declaration, – power of attorney to dispose of the current account at the Bank, – security bond by Stoczek Natura Sp. z o.o., – declaration on submission to enforcement, made pursuant to Article 777 of the Code of Civil Procedure in the form of a notarial deed (up to PLN 4 million).

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

Agreement conditions	31 December 2019
Contractual value	PLN 4,500 thousand

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

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

– Credit in the current account at Bank Gospodarstwa Krajowego

Credit conditions	31 December 2019
Credit agreement value	PLN 3,000 thousand
Credit period*	16.11.2017 – 16.11.2020
Interest rate	WIBOR 3M + bank margin compliant with the standards applied by the bank
Credit balance	PLN 2,967 thousand
Repayment schedule	One-off at the date of maturity
Credit collateral	– contractual mortgage up to PLN 4,500 thousand on the property entered in land and mortgage register No. KW LU1U/00022979/2 located in Stoczek Łukowski LU1U/00022979/2 including the assignment of rights under the property insurance policy, – power of attorney to dispose of the current account at the Bank, – registered pledge on a collection of machinery and equipment (located in the plant in Stoczek Łukowski) including the assignment of rights under the property insurance policy, – security bond by Makarony Polskie SA, – declaration on submission to enforcement, made pursuant to Article 777 of the Code of Civil Procedure in the form of a notarial deed (up to PLN 6 million).

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

– Revolving working capital credit at Bank Gospodarstwa Krajowego*

Credit conditions	31 December 2019
Credit agreement value	PLN 2,500 thousand
Credit period	08.07.2019 – 08.10.2020
Interest rate	WIBOR 3M + bank margin compliant with the standards applied by the bank

Credit balance	PLN 2,500 thousand
Repayment schedule	in two instalments: PLN 1.9 million up to 8 April 2020; PLN 0.6 million up to 8 October 2020
Credit collateral	– contractual mortgage up to PLN 3,750 thousand on the property entered in land and mortgage register No. KW LU1U/00022979/2 in Stoczek Łukowski, including the assignment of rights under the property insurance policy, – power of attorney to dispose of the current account at the Bank, – blank promissory note issued by the Company and promissory note declaration, – security bond by Makarony Polskie SA, – declaration on submission to enforcement, made pursuant to Article 777 of the Code of Civil Procedure in the form of a notarial deed (up to PLN 5 million).

– Investment credit at Bank Gospodarstwa Krajowego*

Credit conditions	31 December 2019
Credit agreement value	PLN 4,812 thousand
Credit period	08.07.2019 – 08.05.2025
Interest rate	WIBOR 3M + bank margin compliant with the standards applied by the bank
Credit balance	PLN 3,348 thousand
Repayment schedule	in 54 monthly instalments, in which 53 equal capital instalments in the amount of PLN 90 thousand each, starting from 30.11.2020 and the last 54th settlement instalment in the amount of PLN 42 thousand
Credit collateral	– contractual mortgage up to PLN 7,218 thousand on the property entered in land and mortgage register No. KW LU1U/00022979/2 in Stoczek Łukowski, including the assignment of rights under the property insurance policy, – power of attorney to dispose of the current account at the Bank, – registered pledge on a collection of machinery and equipment (located in the plant in Stoczek Łukowski), including the assignment of rights under the property insurance policy, – blank promissory note issued by the Company and promissory note declaration, – security bond by Makarony Polskie SA, – declaration on submission to enforcement, made pursuant to Article 777 of the Code of Civil Procedure in the form of a notarial deed notarialnego (up to PLN 9.6 million).

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

Information on borrowings granted

As at 31 December 2019 Makarony Polskie SA granted a short-term borrowing to its subsidiary Stoczek Natura Sp. z o.o. in the amount of PLN 2.0 million with the repayment date on 31 December 2020 (one-off repayment by the date of the loan maturity). The interest rate on the borrowing was set on arm's length basis.

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

Information on guarantees granted and obtained

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

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

Guarantor	Guarantee amount PLN '000	Guarantee validity	Object of guarantee	Collateral
Santander Bank Polska SA	1,011	until 28.12.2021	guarantee securing the Company's obligations under the agreement for storing pasta, under the contract concluded with the Material Reserves Agency (ARM)	– joint mortgage up to PLN 1,517 thousand on properties entered in land and mortgage register No. KW RZ1Z/00076860/5 in Rzeszów and KW PL1P/00094893/6 in Płock including the assignment of rights under the property insurance policy, – blank promissory note and promissory note declaration
Santander Bank Polska SA	249	until 22.01.2021	guarantee securing the Company's obligations under the agreement for storing pasta, under the contract concluded with the Material Reserves Agency (ARM)	– joint mortgage up to PLN 373 thousand on properties entered in land and mortgage register No. KW RZ1Z/00076860/5 in Rzeszów and KW PL1P/00094893/6 in Płock including the assignment of rights under the property insurance policy, – blank promissory note and promissory note declaration

All guarantees binding for Stoczek Natura Sp. z o.o. as at 31 December 2019 are presented in the table below:

Guarantor	Guarantee amount in PLN '000	Guarantee validity period	Subject of the guarantee	Collateral
Bank Gospodarstwa Krajowego	504	until 13.12.2021	guarantee securing the Company's obligations under the agreement for storing ready-made dishes, under the contract concluded with the Material Reserves Agency (ARM)	– mortgage up to PLN 756 thousand on the property entered into land and mortgage register No. KW LU1U/00022979/2 in Stoczek Łukowski, including the assignment of rights under the property insurance policy; – blank promissory note issued by the Company and promissory note declaration; – power of attorney to dispose of the current account at the Bank; – security bond by Makarony Polskie SA
Bank Gospodarstwa Krajowego	1 549	until 15.12.2021	guarantee securing the Company's obligations under the agreement for storing ready-made dishes, under the contract concluded with the Material Reserves Agency (ARM)	– mortgage up to PLN 2,323 thousand on the property entered in land and mortgage No. KW LU1U/00022979/2 in Stoczek Łukowski, including the assignment of rights under the property insurance policy; – blank promissory note issued by the Company and promissory note declaration; – power of attorney to dispose of the current account at the Bank; – security bond by Makarony Polskie SA
Bank Gospodarstwa Krajowego	24	until 25.03.2022	guarantee securing the Company's obligations under the agreement for storing preserves, under the contract concluded with the Material Reserves Agency (ARM)	– blank promissory note issued by the Company and promissory note declaration; – power of attorney to dispose of the current account at the Bank
Bank Gospodarstwa Krajowego	725	unitl 31.08.2023	guarantee securing the Company's obligations under the agreement for 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; – blank promissory note issued by the Company and promissory note declaration; – power of attorney to dispose of the current account at the Bank; – security bond by Makarony Polskie SA;

				– declaration on submission to enforcement made pursuant to Article 777 of the Code of Civil Procedure in the form of a notarial deed (up to PLN 1.5 million).

Information on security bonds granted and obtained

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

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

Makarony Polskie SA received remuneration for the security bonds granted.

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

Third party liabilities	Name of creditor	Security bond value PLN '000	Validity date	Balance of the secured liability in PLN '000 as at 31.12.2019
Security bond for a credit in the current account amounting to PLN 5.0 million	Santander Bank Polska SA	7,500	30.04.2023	2,172
Security bond for an investment credit amounting to PLN 13.8 million	Santander Bank Polska SA	30,000	30.09.2021	5,077

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

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

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

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

In 2019 the Makarony Polskie Group companies did not make any major intercompany transactions on other than arm's length basis.

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

Off-balance-sheet items

(PLN '000)	31 December 2019	31 December 2018
1. Contingent assets	**4,062**	**3,962**
– guarantees and security bonds obtained	4,062	3,337
– secured on property	0	0
– promissory notes	0	625
2. Contingent liabilities	**198,995**	**174,662**
– guarantees and security bonds granted	0	5,025
– secured on property	124,653	116,517
– promissory note payables	74,342	53,120
Total off-balance-sheet items	**-194,933**	**-170,700**

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

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

Important court litigations, arbitration proceedings or or administrative proceedings

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

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

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

In connection with the recommendations sent by the Polish Financial Supervision Authority on 12 March 2020, the Company hereby informs that as at the date of submitting these statements for publication the analysis and quantification of the impact that the coronavirus (COVID-19) may have on the future financial situation and financial results of the Makarony Polskie Group has not been completed. Currently, the companies of the Makarony Polskie Group are observing increased market demand for the products offered by the Group, especially pasta products. We make every effort to maintain the high level of our products and services. We are doing larger deliveries in comparison to the same period last year. However, the epidemiological situation is developing dynamically and we may not have an influence on possible delays or production difficulties related to raw material deliveries or staff shortage, as well as price increases resulting from the limited availability of raw materials or market speculation. Taking the above into account, it is difficult to assess the impact of the current situation on the Company's operations and its financial results, especially in long-term. As at the date of publication of these statements, in the opinion of the Management Board there are no risks for the assumed continuation of business activity.

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

Short information on Makarony Polskie SA

Results discussion

The financial statements of Makarony Polskie SA have been prepared on the basis of the International Financial Reporting Standards, assuming that the Company will continue its business activity in the foreseeable future and within a scope that has not been materially changes. The Company did not carry out any activity that was discontinued in the financial year 2019.

The selected financial data of Makarony Polskie SA as at 31 December 2019, expressed in PLN thousands, are as follows:

(PLN '000)	01.01.2019-31.12.2019	01.01.2018-31.12.2018
Net sales revenues	151,251	134,457
Net sales revenues of products and services	120,110	104,282
Net sales revenues of merchandise and materials	31,141	30,175
Prime cost	118,341	104,883
Cost of manufacturing of products and services sold	90,576	78,188
Value of merchandise and materials sold	27,738	26,695
Gross profit (loss) on sales	32,937	29,574
Costs of sales	20,157	18,667
General management costs	5,137	4,636
Other revenues	1,162	1,327
Other costs	741	559
Profit (loss) on continued operations	8,064	7,039
Financial revenues	110	87
Financial costs	1,140	835
Gross profit	7,034	6,291
Income tax – current part	1,565	1,223
Income tax – deferred part	-117	23
Net profit (loss) on continued operations	5,586	5,045
EBITDA (EBIT + depreciation)	13,292	10,655

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

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

The revenues in 2019 amounted to PLN 151.3 million and were higher by approximately 12.5% (PLN+16.8 million) compared to 2018 which was mainly caused by the growth in the segment of pasta (PLN 16.5 million YoY).

The costs of products, services, merchandise and materials sold in 2019 amounted to approximately PLN 118.3 million (increase by about 12.8%).

In 2019 Makarony Polskie SA generated gross profit on sales at the level of about PLN 32.9 million (growth by PLN 3.4 million compared to 2018), with gross return on sales at the level of roughly 21.8% (22.0% in 2018).

The result on operating activities (EBIT) in 2019 was PLN 8.1 million, compared to PLN 7.0 million in 2018, i.e. roughly 14.6% growth. Profitability at EBIT level amounted to 5.3% (compared to 5.2% in 2018).

Net profit in 2019 amounted to PLN 5.6 million and was higher than the result for 2018 by PLN 0.5 million (+10.7%). Sales profitability calculated in reference to net profit amounted to 3.7% (compared to 3.8% in 2018).

In 2019 the Company reported EBITDA at the level of about PLN 13.3 million, compared to approx. PLN 10.7 million 2018, i.e. growth by roughly PLN 2.6 million YoY, i.e. 24.7%. EBITDA profitability in 2019 was 8.8% compared to 7.9% in 2018.

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

FOR THE PERIOD	01.01.2019-31.12.2019	01.01.2018-31.12.2018
Net comprehensive income	5,586	5,045
Profit/loss on account of hedge accounting application	0	0
Total net comprehensive income	5,586	5,045

Market environment

The sales markets of Makarony Polskie SA may be divided into domestic market (including private label, traditional trade, modern trade, and B2B and institutions) and exports market (including sales through domestic intermediaries). In 2019 the Company generated the following sales revenues:

PLN '000	2019	2018	YoY
Sales revenues	151,251	134,456	12.5%

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

Private label

The largest share in the Company revenues (61.6%) was contributed by the private label (PL) channel offering products under own brands of domestic and foreign shop chains (in consideration of the sales to Lidl operating within one group in Europe).

PLN '000	2019	2018	YoY
Incomes on sale	93,139	78,903	18.0%

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

In 2019 sales in that channel grew by 18.0% compared to 2018. Higher sales revenues resulted from the introduction of a new assortment to the fixed list of products, with simultaneous maintenance of the previously offered products.

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

In 2019 two customers exceeded the threshold of 10% share in the separate sales revenues (total for brand and private label products). These are Jeronimo Dystrybucja Polska with approximately 28.7% share and Grupa Lidl with roughly 12.4% share. The companies of the Group are in no way related to the operators of those shop chains, whereas cooperation is carried out on partner basis and is favorable to Makarony Polskie SA.

Modern trade and traditional trade

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

MT and TT (PLN '000)	2019	2018	YoY
Incomes on sale	27,538	27,736	-0.7%

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

- price pressure on the market,
- increase in raw material prices and production costs

- no possibility to renegotiate the concluded contracts,
- growing PL segment also in modern trade networks.

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

B2B and Institutions

In 2019, B2B and institutions represented approx. 11.8% of the total revenues of the Company:

B2B and institutions (PLN '000)	2019	2018	YoY
Sales revenues	17,876	18,934	-5.6%

Sales in the B2B and institutions channel in 2019 amounted to about PLN 17.9 million and was by approx. PLN 1.1 million (-5.6%) lower than in 2018.

Exports

Exports in the Group's total revenues for 2019 accounted for 8.4%:

Export (in PLN '000)	2019	2018	YoY
Incomes on sale	12,698	8,883	42.9%

The export sale of the Company in 2019 amounted to approx. PLN 12.7 million performed with its own sales team and intermediaries). It was a result by over 40% higher than the one reached in 2018. The main export market is Ukraine. The Company is currently implementing a long-term strategy to acquire new markets. The established direct relations with the final recipients positively translate into the level of the realized margin.

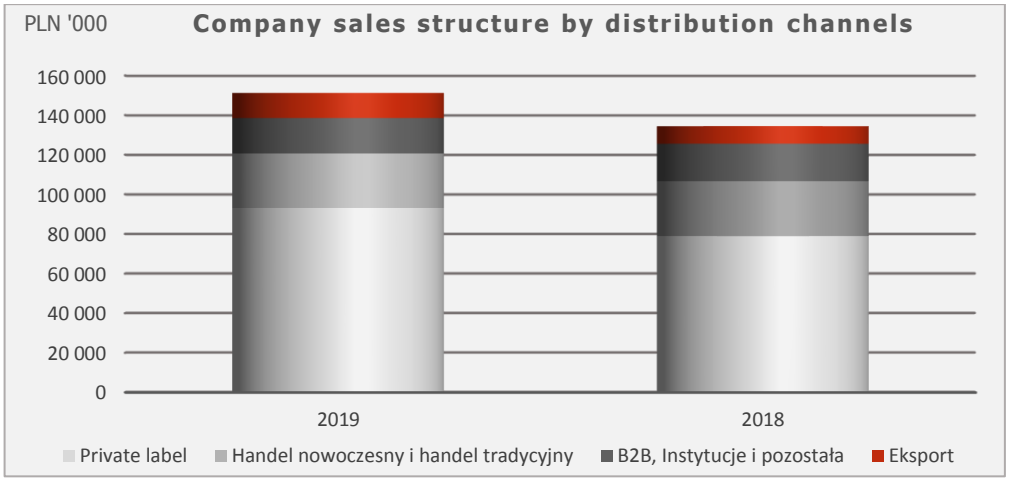
In 2019, Makarony Polskie operated mainly on European markets (Ukraine, Belarus, Slovakia, Germany, Serbia) and to a lesser extent on African (Egypt, RSA), Asian (Hong Kong, Iraq) and the USA markets.

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

Operating segments

Sales structure by distribution channels at Makarony Polskie SA

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



Sales revenues by operating segments

(PLN '000)	For the period from 01.01 to 31.12.2019	For the period from 01.01 to 31.12.2018
Pasta	118,217	101,692
Meat and vegetable preserves	18,047	17,917
Vegetable preserves and stuffing	1,098	1,320
Fruit preserves	7,742	7,212
Other	6,147	6,316
Total	**151,251**	**134,457**

The value of sales in 2019 amounted to PLN 151.3 million and was higher by approx. 12.5% (+PLN 16.8 million) compared to 2018, which was mainly caused by the increase in the pasta segment (PLN 16.5 million YoY).

Sales revenues of Makarony Polskie SA in 2019 amounted to PLN 151.3 million and were higher by approx. PLN 16.8 million higher than in the same period in 2018.

The value of sales in the pasta category grew by PLN 16.5 million to PLN 118.2 million in 2019. The main changes resulted from good reception by customers of product novelties in the largest retail chains (e.g. pasta in 100% made of vegetable flour) and high dynamics of increase of export sales.

As part of internal cooperation of the companies of the Makarony Polskie Group, Makarony Polskie SA is a distributor of products of its subsidiary Stoczek Natura Sp. z o.o.

Another segment in which positive dynamics of change was recorded is the segment of fruit preserves. In the analyzed period it increased by PLN 0.5 million to the amount of nearly PLN 7.7 million, which resulted from the sales development of jams under chain brands and the Stoczek brand.

In the segments of meat and vegetable preserves and vegetable preserves and stuffing the sales in 2019 was similar to the corresponding period in 2018, i.e. PLN 18.0 million and 1.1. million respectively.

Structure of assets and equity/liabilities

The balance-sheet total of Makarony Polskie SA as at 31 December 2019 amounted to PLN 151.7 million, compared to PLN 132.3 million as at 31 December 2018.

Structure of assets and equity/liabilities

ASSETS	01.01.2019-31.12.2019	01.01.2018-31.12.2018
FIXED ASSETS	**113,267**	**94,404**
Tangible fixed assets	73,444	58,573
Fixed assets – IFRS-16	4,091	0
Investment properties	603	603
Goodwill	0	0
Other intangible assets	4,944	4,971
Long-term financial assets, of which:	30,080	30,080
Shares	30,080	30,080
Loans granted	0	0
Deferred income tax assets	0	0
Other long-term assets	105	177
CURRENT ASSETS	**38,445**	**37,904**
Inventories	10,655	11,367
Short-term receivables	24,825	23,972
Deferred income tax receivables	0	0
Loans granted	2,006	2,006
Cash and cash equivalents	701	294

Other short-term assets	258	265
Fixed assets held for sale	0	0
TOTAL ASSETS	**151,712**	**132,308**

EQUITY/LIABILITIES	01.01.2019-31.12.2019	01.01.2018-31.12.2018
EQUITY CAPITAL	**77,366**	**74,093**
Share capital	27,750	27,750
Supplementary capital	32,362	42,097
Reserve capital	12,000	0
Retained profit/loss (profit/loss from previous years)	- 332	- 799
Net profit/loss	5,586	5,045
LONG-TERM LIABILITIES	**34,449**	**21,337**
Deferred income tax provision	3,250	3,367
Long-term bank credits and borrowings	14,772	10,541
Provision for retirement benefits and equivalent (long-term)	300	234
Revenues from future periods - long-term	11,711	6,062
Long-term financial liabilities - leasing	1,141	1,133
Long-term financial liabilities - IFRS-16	3,275	0
SHORT-TERM LIABILITIES	**39,897**	**36,878**
Short-term bank credits and borrowings	10,907	11,170
Short-term financial liabilities - leasing	685	885
Short-term financial liabilities - IFRS-16	884	
Other short-term liabilities	25,411	23,456
Deferred income liabilities	426	171
Revenues from future periods - short-term	885	519
Provision for retirement benefits and equivalent (short-term)	699	677
Other short-term provisions	0	0
TOTAL LIABILITIES	**74,346**	**58,215**
TOTAL EQUITY/LIABILITIES	**151,712**	**132,308**

As at 31 December 2019 fixed assets were worth roughly PLN 113.3 million (74.7% of total assets) compared to PLN 94.4 million at the end of 2018 (20.0% growth vs the end of 2018). The increase in the value of fixed assets resulted from the performance of the investment plan at the plant in Rzeszów. The largest project of 2018 was the "Implementation of the Results of R&D Works on Functional Food at Makarony Polskie SA".

The increase in the value of fixed assets resulted from the implementation of a large investment plan in the plant in Rzeszów and the application of IFRS 16, i.e. valuation and disclosure of lease agreements and perpetual usufruct rights (+PLN 4.1 million),

As at 31 December 2019 current assets were roughly PLN 38.4 million and grew by approx. 1.4% in comparison to the end of 2018 (approx. PLN 37.9 million). The decrease in inventories by approx. PLN 0.9 million, i.e. by approx. 3.6% and the increase in cash by PLN 0.4 million i.e. by approx. 138.4% in comparison to the end of 2018 had the greatest impact on the change in current assets.

Equity as at the balance-sheet date amounted to approx. PLN 77.4 million, constituting approx. 51% of the value of equity and liabilities and it increased by 4.4% in comparison to PLN 74.1 million at the end of 2018. The change was caused by the achieved profit for 2019 in the amount of PLN 5.6 million and the allocation of part of the net profit for 2018 to dividend in the amount of PLN 2.3 million.

Long-term liabilities amounted to PLN 34.4 million and grew by 61.5% (from PLN 21.3 million) in comparison to the end of 2018, due to the utilization of credit limits granted in reference to the performance of investments projects in Rzeszów, as well as the change in schedule and term of long-term credit agreements (+PLN 4.2 million), increase in deferred income as a result of subsidies received after settling the projects covered by the EU support (+PLN 5.6 million) and due to the application of IFRS 16 (+PLN 3.3 million), i.e. valuation and disclosure of lease agreements and perpetual usufruct rights.

Short-term liabilities as at 31 December 2019 amounted to PLN 39.9 million and increased in comparison to the end of 2018, i.e. the amount of PLN 36.9 million. The biggest changes in short-term liabilities are: an increase in the value of the other liabilities item (growth by approx. PLN 2.0 million, i.e. approx. 8.3%), the application of IFRS 16 (+PLN 0.9 million), i.e the valuation and disclosure of lease agreements and perpetual usufruct rights in the short-term part.

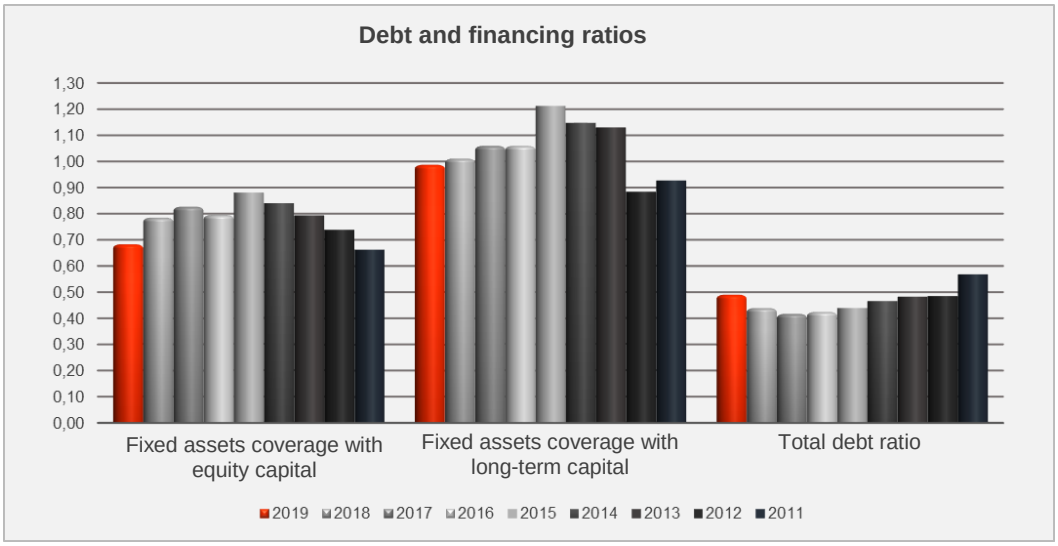
Ratio analysis

The return, liquidity and debt ratios analysis reflects good financial standing of Makarony Polskie SA in 2019 as regards profitability, capacity to pay liabilities as well as security of financing current and investment activities.

The level of return and cash flows generated by the Company enabled it to pay out dividend to shareholders in 2019 in the amount of PLN 2.3 million, carry out many investments, purchase some raw materials at attractive prices without trade credit and maintain safe debt level, among other things.

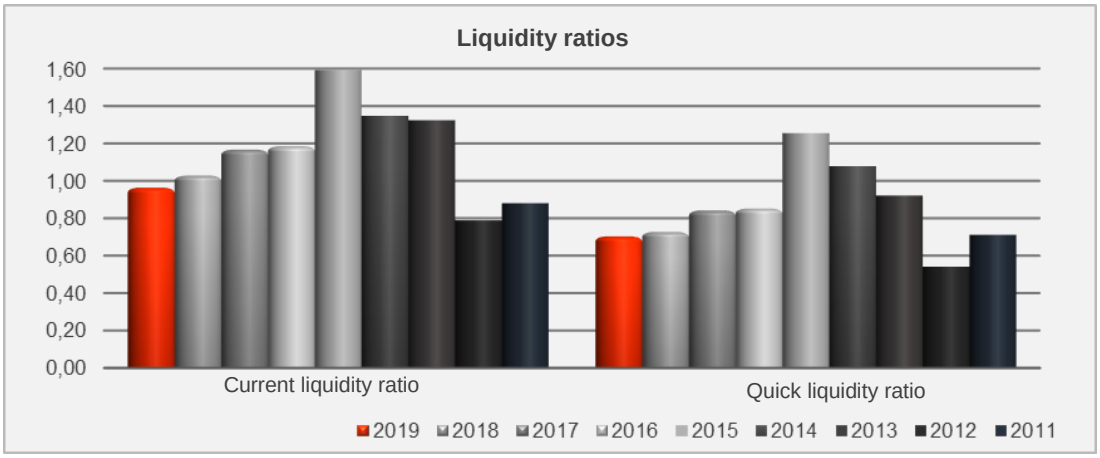
Debt and financing ratios

	2019	2018	2017	2016	2015	2014	2013	2012	2011
Fixed assets coverage with equity capital *[Equity capital/fixed assets]*	0.68	0.78	0.83	0.80	0.88	0.84	0.79	0.74	0.66
Fixed assets coverage with long-term capital *[(Equity capital + long-term liabilities)/fixed assets]*	0.99	1.01	1.06	1.06	1.21	1.15	1.13	0.88	0.93
Total debt ratio *[Total liabilities/total assets]*	0.49	0.44	0.42	0.42	0.44	0.47	0.48	0.48	0.57



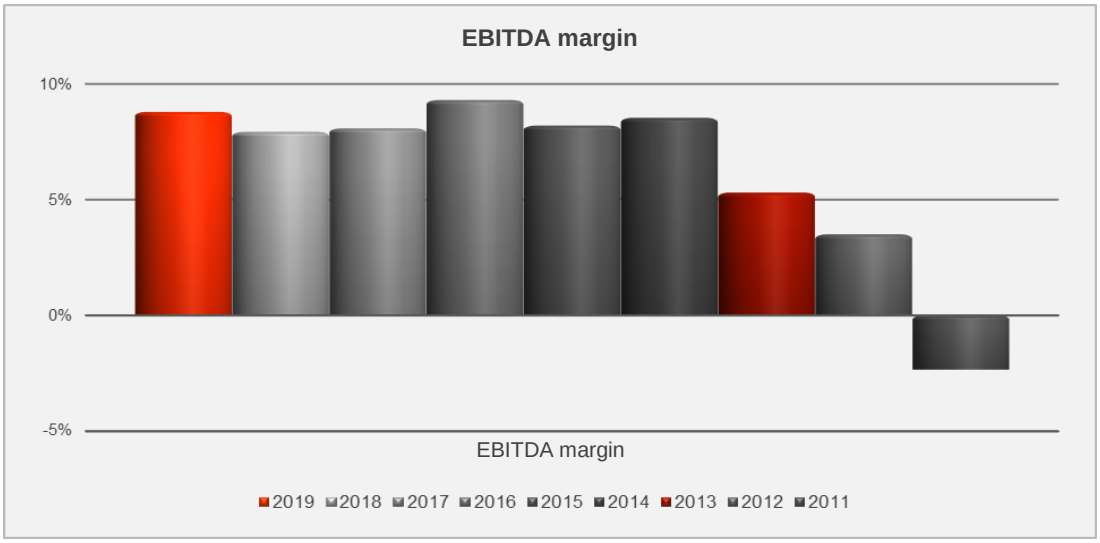
Liquidity ratios

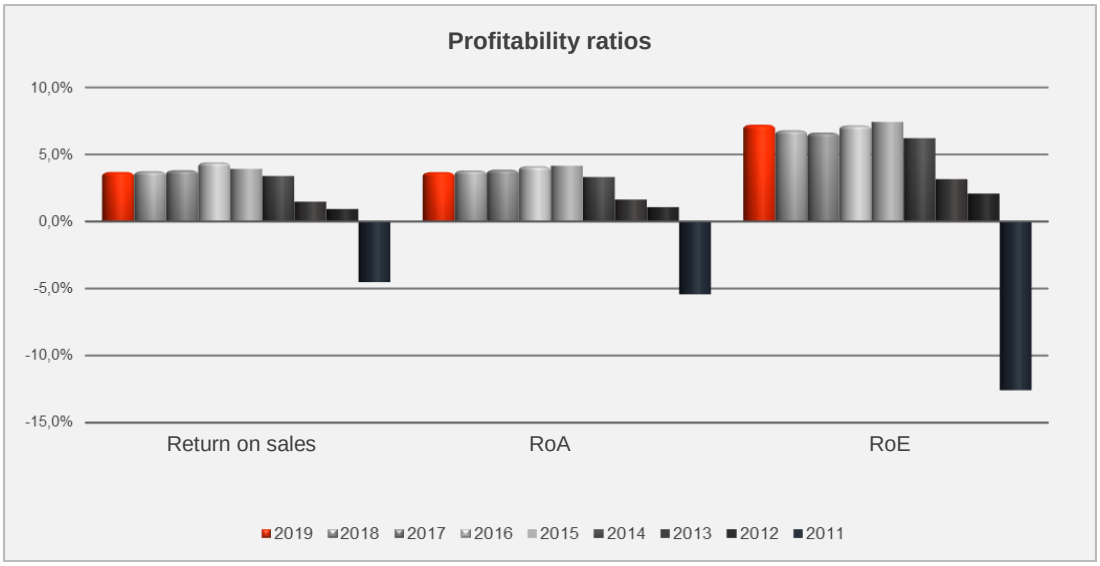
	2019	2018	2017	2016	2015	2014	2013	2012	2011
Current liquidity ratio *[Current assets/short-term liabilities]*	0.96	1.03	1.17	1.19	1.59	1.35	1.32	0.79	0.88
Quick liquidity ratio *[(Current assets – inventories – short-term prepayments)/short-term liabilities]*	0.70	0.72	0.84	0.85	1.25	1.08	0.92	0.54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



Profitability ratios

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




Profitability ratios
10,0%
5,0%
0,0%
-5,0%
-10,0%
-15,0%
Return on sales
RoA
RoE
2019 2018 2017 2016 2015 2014 2013 2012 2011

Off-balance-sheet items

(PLN '000)	31 December 2019	31 December 2018
1. Contingent assets	**63,881**	**71,519**
- guarantees and security bonds obtained	61,881	68,894
- secured on property	0	0
- promissory notes	2,000	2,625
2. Contingent liabilities	**159,105**	**161,105**
-– guarantees and security bonds granted	13,090	10,078
– secured on property	94,772	105,938
– promissory note payables	51,243	45,089
Total off-balance-sheet items	**-95,224**	**-89,586**

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

In 2019, the Company applied "The Best Practice for GPW Listed Companies 2016"

Corporate Governance

Statement of compliance with corporate governance rules

In 2019, the Company applied "The Best Practice for GPW Listed Companies" (Best Practice). A document comprising the Best Practice rules is available on the website of Giełda Papierów Wartościowych w Warszawie SA [Warsaw Stock Exchange] at: http://corp-gov.gpw.pl.

Explanations of the Company regarding the method of application of the particular rules included in "The Best Practice for GPW Listed Companies 2016" collection in reference to the year 2019:

Information policy and communication with investors

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

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

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

  In 2019 that principle did not apply. The shares of the Company are qualified neither to WIG20 nor to mWIG40 stock exchange indexes.

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

Internal systems and functions

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

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

General Meeting and relations with shareholders

- *IV.Z.2. If it is justified by the structure of the Company's shareholding, the Company shall transmit the General Meeting sessions for general public in real time.*
- The Management Board of Makarony Polskie SA assessed that in 2019 incurring such costs would not be justified by the structure of the Company's shareholding. Moreover, the Articles of Association of Makarony Polskie SA do not provide for the possibility of participation in a General Meeting with the use of electronic communication means, as stipulated in Article 406^5 of the Code of Commercial Companies.
- *IV.Z.3. Mass media representatives may be present at General Meeting sessions.*

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

Conflict of interest and transactions with related companies

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

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

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

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

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

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

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

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

The financial data used as a basis of the financial statements and interim reports come from the monthly financial and operational reporting applied by the Company. Upon accounting

closure of each calendar month, the Financial Office and the Management Board analyse the financial results of the Company comparing them to assumptions for the particular business segments. The identified errors are corrected on a current basis in the Company's books of account, in compliance with the adopted accounting policy.

Preparation of financial statements and interim reports starts after verification and acceptance of the results of the month/period ended by the Management Board. Interim reports of the Company are prepared by the financial and accounting services under the supervision of the Chief Accountant (based on the financial data presented in the interim financial statements) and the Financial Office staff, and are subject to verification by the Director of the Financial Office and the Company Management Board.

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

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

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

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

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

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

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

The rules concerning a change of the entity authorized to audit the financial statements are provided for in § 4 of the By-law of the Supervisory Board of the Company. A policy of selection

of an audit firm to carry out the audit of financial statements as well as a Procedure of selection of an audit firm to carry out the audit the financial statements, both prepared by the Audit Committee of the Supervisory Board, are binding at the Company.

An entity that is to perform the function of the statutory auditor at the Company is selected such as to ensure independence during the performance of the entrusted tasks. The assessment of the statutory auditor's independence at the particular stages of selection, as well as during further cooperation, is made by the Audit Committee. The Audit Committee also consents to the provision by the statutory auditor and the audit firm of the allowed non-audit services, in accordance with the principles of the Policy passed and implemented in that area.

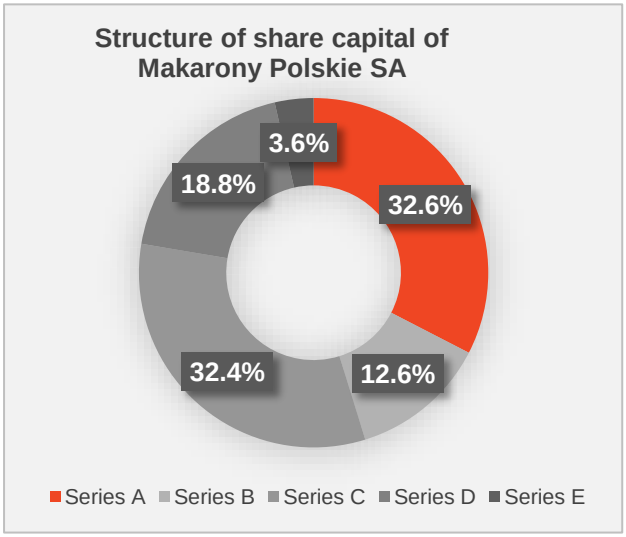
Share capital

Share capital of Makarony Polskie SA:

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

Structure of the share capital of the Company:

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



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

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

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

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

Shareholder	Shares in the share capital		Votes in the General Meeting	
	number	% share	number	% share
Grupa Praska Giełda Spożywcza SA, including:	2,311,594	24.99%	2 311 594	24,99%
Praska Giełda Spożywcza SA (formerly: Agro-Technika SA)	*2,050,000*	*22.16%*	*2 050 000*	*22.16%*
Zenon Daniłowski	*140,000*	*1.51%*	*140,000*	*1.51%*
Polskie Smaki Sp. z o.o.	*121,594*	*1.31%*	*121,594*	*1.31%*
Raya Holding for Technology & Communications S.A.E., including:	1,793,406	19.39%	1,793,406	19.39%
Madova Sp. z o.o.	*1,793,406*	*19.39%*	*1,793,406*	*19.39%*
Elżbieta i Grzegorz Słomkowscy, including:	1,183,040	12.79%	1,183,040	12.79%
Z.P.H. „ELPAST" Elżbieta i Grzegorz Słomkowscy s.c.	*1,169,750*	*12.65%*	*1,169,750*	*12.65%*
Grzegorz Słomkowski	*13,290*	*0.14%*	*13,290*	*0.14%*
Agroma Ltd	950,000	10.27%	950,000	10.27%
Other shareholders	3,012,031	32.56%	3,012,031	32.56%
TOTAL	**9,250,071**	**100.00%**	**9,250,071**	**100.00%**

Changes in the shareholding in 2019

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

- on 13 June 2019 Agroma LTD with its registered office in Strovolos, Cyprus informed about the increase in the number of shares of Makarony Polskie SA. As a result of off-session block transactions of 245,500 shares of Makarony Polskie SA in total

concluded on 11 June 2019, the share of Agroma LTD in the total number of votes in the General Meeting of the Company exceeded 5%, to the level of 5.9081% of the total number of votes in the General Meeting of the Company.

Prior to the conclusion of the acquisition transaction, Agroma LTD acquired 303,000 shares of the Company representing approximately 3.2757% of the share capital of the Company and entitling it to 303,000 votes, that is 3.2757% of the total number of votes in the General Meeting of the Company. After the conclusion of the acquisition transaction, Agroma LTD acquires 546,600 shares of the Company representing 5.9081% of the share capital of the Company and entitling it to 546,500 votes, that is 5.9081% of the total number of votes in the General Meeting of the Company.

- on 21 June 2019 with its registered office in Strovolos, Cyprus informed about the increase in the number of shares of Makarony Polskie SA.

  As a result of off-session block transactions of 329,500 shares of Makarony Polskie SA in total concluded on 19 June 2019, the share of Agroma LTD in the total number of votes in the General Meeting of the Company exceeded 10%, to the level of 10.27% of the total number of votes in the General Meeting of the Company.

  Prior to the conclusion of the acquisition transaction, Agroma LTD acquired 620,500 shares of the Company representing approximately 6.71% of the share capital of the Company and entitling it to 620,500 votes, that is 6.71% of the total number of votes in the General Meeting of the Company.

  After the conclusion of the acquisition transaction, Agroma LTD acquires 950,000 shares of the Company representing 10.27% of the share capital of the Company and entitling it to 950,000 votes, that is 10.27% of the total number of votes in the General Meeting of the Company.

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

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

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

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

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

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

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

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

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

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

the total number of votes in the General Meeting of the Company, i.e. to exercise 148,600 votes.

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

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

Changes in shareholding after balance-sheet date

On 18 March 2020 the Company received a notification sent by Mr. Wojciech Wiśniewski, on his behalf and on behalf of Agro-Jumal Sp. z o.o. with its registered office in Sieradz, regarding the decrease in the number of shares of Makarony Polskie SA held by them. Mr. Wojciech Wiśniewski, acting on his own behalf and on behalf of Agro-Jumal Sp. z o.o. informed that on 13 March 2020 as a result of a sales transaction of shares of Makarony Polskie SA on the stock market, a change occurred in the share in the total number of votes in the General Meeting of the Company held by him and Agro-Jumal Sp. z o.o by reducing it to below 5% (hereinafter referred to as the "Change in Holdings").

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

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

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

After the Change in Holdings, Mr Wojciech Wiśniewski together with Agro-Jumal Sp. z o.o. hold 452,623 shares of the Company, representing 4.89% of share in the share capital of the

Company and entitling them to 452,623 votes in the total number of votes in the General Meeting of the Company, i.e. to exercise 452,623 votes, of which:

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

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

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

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

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

Shares held by the Members of the Management Board

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

Management Board Member	2019		2018	
	Number of shares	Nominal value	Number of shares	Nominal value

Zenon Daniłowski*	140,000	420,000	140,000	420,000

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

In accordance with the information possessed by the Company no changes in the status of shares held by the President of the Management Board occurred during 2019 and by the publication date of this report.

Shares held by the Members of the Supervisory Board

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

Member of the Supervisory Board	2019		2018	
	Number of shares	Nominal value	Number of shares	Nominal value
Marek Rocki	0	0	0	0
Michał Słomkowski	0	0	0	0
Roman Sobiecki	0	0	0	0
Samer Elwaziri	0	0	0	0
Wiesław Wasilewski	5,000	15,000	5,000	15,000

In accordance with the information possessed by the Company no changes in the status of shares held by the Members of the Supervisory Board occurred during 2019 and by the publication date of these statements.

Shares in subsidiaries

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

The right to make decisions on shares issue or redemption

In accordance with § 9 of the Articles of Association of the Company, the share capital may be increased and decreased pursuant to the procedure specified in the Code of Commercial Companies, or by way of a public offering on the terms and conditions specified in the Act of

29 July 2005 on Public Offering and Conditions Governing Introduction of Financial Instruments to Organized Trading, and on Public Companies (as amended).

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

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

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

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

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

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

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

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

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

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

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

In accordance with Article 430 of the Code of Commercial Companies, any amendment of the Articles of Association requires a resolution passed by the General Meeting and an entry in the register. A resolution of the General Meeting concerning amendments to the Articles of Association must be passed with the majority of 3/4 of the votes cast – Article 415 of the Code of Commercial Companies.

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

General Meeting

The principal rights of the General Meeting

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

Operation of the General Meeting

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

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

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

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

The General Meeting is capable of adopting resolutions irrespective of the number of shares represented at the session, unless the Code of Commercial Companies provides otherwise. Without prejudice to the provisions of Article 404 of the Code of Commercial Companies, the General Meeting may adopt resolutions only concerning the affairs stipulated in the Code of Commercial Companies and the Articles of Association, which are covered by the agenda of a given Meeting.

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

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

Shareholders' rights

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

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

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

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

General Meeting in 2019

In the reporting year 2019, the Annual General Meeting of Makarony Polskie SA took place on 18 June. The agenda of the General Meeting included:

- consideration and approval of the financial statements of Makarony Polskie SA for the reporting year 2018,
- consideration and approval of the Management Board report on the operations of the Company and the Makarony Polskie Group in the reporting year 2018,
- consideration and approval of the consolidated financial statements of the Makarony Polskie Group for the reporting year 2018,
- net profit distribution for the reporting year 2018,
- coverage of accumulated previous years net loss of Makarony Polskie SA as reflected in the balance sheet of the Company as at 31 December 2018,
- consideration of the report of the Supervisory Board of Makarony Polskie SA for the reporting year 2018,
- granting the vote of approval to the Members of the Company Management Board with regard to their fulfilment of duties in the reporting year 2018,
- granting the vote of approval to the Members of the Company Supervisory Board with regard to their fulfilment of duties in the reporting year 2018,
- passing the resolution concerning the authorization for the Management Board to repurchase the Makarony Polskie SA own shares,
- passing the resolution concerning the creation of reserve capital for own shares repurchase.

The resolutions of the Annual General Meeting were published in the current report No. 15/2019 of 19 June 2019. Moreover, they are available on the website of the Company at: www.makarony.pl.

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

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

Supervisory Board

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

The principles of appointing and recalling the Supervisory Board Members

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

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

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

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

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

Competencies of the Supervisory Board

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

- assessment of the financial statements and the Management Board report with regard to their conformity with the books of account and evidence documents as well as with the actual state of affairs, and evaluation of the Management Board proposals regarding profit distribution or loss coverage as well as submission to the General Meeting of annual reports on the results of such evaluation,
- approval of annual financial plans of the Company and supervision of their execution,
- selection of a statutory auditor to audit the Company financial statements,
- granting consent to purchase or sale of real estate, perpetual usufruct rights or share in real estate of the value exceeding 10% of the Company equity, calculated in reference to the latest balance sheet of the Company approved by the General Meeting, unless such purchase has been stipulated in the annual financial plan of the Company approved by the Supervisory Board,
- granting consent to a sale of the Company assets, the value of which exceeds 10% (ten per cent) of the total value of the Company equity, calculated in reference to the latest balance sheet of the Company approved by the General Meeting, unless the sale has been stipulated in the annual financial plan of the Company approved by the Supervisory Board,
- granting consent to assume a liability or dispose of rights which – within one or several interrelated legal transactions – exceeds 10% of the Company equity, calculated in reference to the latest balance sheet of the Company approved by the General Meeting, unless such liability or disposal has been stipulated in the annual financial plan of the Company approved by the Supervisory Board,
- granting consent to the payment to the shareholders of an advance on account of the expected dividend,
- appointing and dismissing the whole Management Board of the Company or its individual members,
- establishing the rules and the terms and conditions of remuneration for the Members of the Management Board as well as the value of the remuneration,
- representing the Company in any contracts concluded between the Company and a Member of the Management Board, and in any disputes between the Company and such a person.

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

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

Composition of the Supervisory Board

From 1 January 2019 to the date of publication of this report, the Supervisory Board consisted of:

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

Committees of the Supervisory Board

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

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

Audit Committee

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

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

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

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

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

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

Specifically, the tasks of the Audit Committee include:

- monitoring of:
  - the Company financial reporting processes,
  - the efficiency of internal control and risk management systems as well as internal audit, also in reference to financial reporting,
  - the financial audit activities performance, and specifically auditing the financial statements of the Company by an audit firm, in consideration of any conclusions and determinations of the Audit Supervision Commission on the basis of control carried out at the respective audit firm;
- control and monitoring the independence of the statutory auditor and the audit firm carrying out the audit of the Company financial statements (specifically if the audit firm also provides the Company with non-audit services);
- informing the Supervisory Board about the results of the Company financial statements and explanation of how the audit contributed to the fairness of the financial reporting of the Company, and what was the role of the Committee in the audit process;
- assessing the independence of the statutory auditor and the audit company carrying out the audit of the Company financial statements, and expressing consent to the provision by them of any allowed non-audit services to the Company;
- preparing a policy of selection an audit firm to carry out the Company financial statements audit;
- preparing a policy of providing the allowed non-audit services to the Company by the audit firm carrying out the audit of the Company financial statements, the entities related to that audit firm or a member of the audit firm's network (within the meaning of generally binding regulations);

- preparing a procedure of selection of an audit firm to carry out the audit of the Company financial statements;
- presentation to the Supervisory Board of a recommendation regarding the selection of a statutory auditor or audit firm to carry out the audit the Company financial statements. The recommendation should comply with the requirements of Regulation No. 537/2014 and the Act on Statutory Auditors;
- providing the Supervisory Board and the Management Board with recommendations aimed at ensuring the fairness of the Company financial reporting process.

When performing its work, the Audit Committee may:

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

Membership of the Audit Committee

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

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

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

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

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

Mr. Roman Sobiecki is an author and co-author of over 60 books and articles in micro- and macroeconomics, globalization and entrepreneurship (including the book entitled "Globalization and the Functions of Polish Agriculture"). He is also author and co-author of academic textbooks for students in the theory of competition and the strategy of competing companies, plus textbooks and curricula for teaching economics at secondary and professional schools.

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

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

Activities of the Audit Committee in 2019 and in reference to 2019

In the reporting year 2019, the Audit Committee held 2 meetings convened by the Audit Committee Chairman and devoted to the performance of duties by the Committee, and specifically referring to:

- acceptance of the annual report on the activities of the Audit Committee in 2018,
- cooperation with the statutory auditor during the audit of the financial statements for the reporting year 2019, as well as controlling and monitoring the independence of the statutory auditor and the audit firm auditing the financial statements of the Company,
- monitoring of financial reporting processes in the Company, effectiveness of internal control systems and risk management systems, as well as internal audit, including within the scope of financial reporting,
- informing the Supervisory Board about the results of the audit of the Company's financial statements and explaining how this audit contributed to the fairness of financial reporting in the Company and what the role of the Audit Committee in the audit process was,
- assessing the independence of the statutory auditor and the audit firm carrying out the audit of the financial statements of the Company.

After the end of the reporting year 2019, the Audit Committee held 2 meetings convened by the Audit Committee Chairman and devoted specifically to:

- cooperation with the statutory auditor during the audit of the financial statements for the reporting year 2019,
- preparing information for the Supervisory Board about the results of the Company and the Makarony Polskie Group financial statements audit and explanation of the way in which the audit contributed to the fairness of financial reporting, and the role played by of the Committee in the audit process,
- commencing the procedure of selection of the audit firm carrying out the audit of the financial statements of the Company in the years 2020-2022,
- acceptance of the annual report on the activities of the Audit Committee in 2019.

The object of the ongoing activities of the Audit Committee is to monitor the works related to the process of preparing and auditing the financial statements of the Company. The Audit Committee monitored the correctness of preparing the financial statements by the Company for the reporting year 2019, cooperating in that regard with the Management Board of the Company and remaining in contact with the statutory auditor carrying out the audit of the financial statements, i.e. BDO Spółka z ograniczoną odpowiedzialnością Sp.k. with its registered office in Warsaw.

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

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

On 18 October 2017, the Audit Committee passed:

- the "Policy of selection of an audit firm to carry out the statutory audit of the financial statements of Makarony Polskie SA with its registered office in Rzeszów and the Makarony Polskie Group", which reads that the audit firm is selected in accordance with the following principles:

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

- the "Policy of providing the allowed non-audit services by the audit firm carrying out the audit of the financial statements of Makarony Polskie SA with its registered office in Rzeszów and the Makarony Polskie Capital Group, or by entities related to that audit firm or a member of the audit firm's network", which reads that:
  - the statutory auditor or the audit firm that carry out the statutory audit of the Company, or an entity related to that audit firm, or any member of the statutory auditor's or the audit firm's network, do not provide directly or indirectly to the Company or its related companies any prohibited non-audit services or financial review procedures.

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

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

In the reporting year 2019 and by the publication of this report, the audit firm carrying out the audit of the financial statements of Makarony Polskie SA did not provide any permitted non-audit services to the companies of the Makarony Polskie Group.

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

In the financial year 2019 Makarony Polskie SA did not change the statutory auditor. In 2020, the Audit Committee will carry out a procedure of selection of an audit firm for reviewing and auditing the financial statements of the Company in the years 2020-2020, and then, it will present to the Supervisory Board its recommendation regarding the selection of an audit firm for auditing.

Supervisory Board Members Remuneration Policy

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

The Supervisory Board Members receive remuneration for each Supervisory Board meeting in which they participate in accordance with the system of remuneration for the Supervisory Board of Makarony Polskie SA adopted by way of Resolution No. 22 of the Annual General Meeting of 28 June 2018.

The information concerning the remuneration paid to the Members of the Company Supervisory Board is presented in the table below, as well as in Note 39 to the consolidated financial statements and Note 38 to separate financial statements.

(in PLN '000)	Function	For the period from 01.01 to 31.12.2019	For the period from 01.01 to 31.12.2018
Roman Sobiecki	Chairman of the Supervisory Board	26	29
Samer Abdelfatah Mohamed Elwaziri	Deputy Chairman of the Supervisory Board	24	30
Wiesław Wasilewski	Supervisory Board Member	21	23
Marek Rocki	Supervisory Board Member	21	23
Michał Słomkowski	Supervisory Board Member	21	23
Total		**113**	**128**

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

Supervisory Boards of the subsidiaries

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

Management Board

Principles of Management Board Members appointment and dismissal

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

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

Competencies of the Management Board

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

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

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

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

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

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

During the reporting year 2018, Mr. Dariusz Cylka also acted as a Proxy, however, his mandate was recalled by the Company Management Board on 17 April 2019.

Composition of the Management Board

In the period from 1 January 2019 to the date of this report publication, the Management Board consisted of one person. The office of the President of the Management Board has been held by Zenon Daniłowski.

Division of duties among the Management Board Members

The Management Board of the Company consists of one person.

Management Board Members Remuneration Policy

In accordance with the Company Articles of Association, the Management Board Members receive remuneration in the value determined by the Supervisory Board. The system of remunerating the President of the Management Board consists of a fixed part (basic salary under an employment contract) and a variable incentive part (remuneration for the fulfilment of function calculated based on the EBITDA result /operating profit + depreciation/ generated

by the Company in the quarter for which the remuneration is paid, and disclosed in the published interim reports covering the respective quarter).

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

In the financial year 2019, as well as in the period by the date of publication of this report, Makarony Polskie SA did not have any employee share schemes.

The information concerning remuneration paid to the Members of the Company Management Board is presented in the table below, as well as in Note 39 to consolidated financial statements, and Note 38 to the separate financial statements.

Forename and surname	Function	For the period from 01.01 to 31.12.2019		For the period from 01.01 to 31.12.2018	
		Fixed	Variable	Fixed	Variable
Zenon Daniłowski	President of the Management Board	540*	248	528*	287
	Total	**788***		**815***	

* Including the remuneration on account of acting as the President of the Management Board of MP Trade Sp. z o.o. subsidiary: PLN 120,000 in 2019 and PLN 108,000 in 2018

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

Management Boards of the subsidiaries

Stoczek Natura Sp. z o.o.

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

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

On 16 January 2020 Mr. Rafał Dziobko resigned from the position of the President of the Management Board in connection with other professional plans. The Meeting of Shareholders

of the subsidiary decided to change the number of members of the Management Board of the current term of office, determine it to be one-person and entrust the position of the President of the Management Board to Mr. Adam Ławnik.

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

- Adam Ławnik – President of the Management Board.

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

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

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

MP Trade Sp. z o.o.

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

- Zenon Daniłowski – President of the Management Board.

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

Other information

Information concerning cooperation with the statutory auditor

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

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

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

On 27 July 2018, Makarony Polskie SA concluded an agreement with the aforesaid auditor regarding the review of condensed financial statements for the first half of the reporting year, and audit of the financial statements of the Company and the Group for the reporting year, in the years 2018–2019.

The remuneration of BDO Spółka z ograniczoną odpowiedzialnością sp.k. on account of the audit of the financial statements of Makarony Polskie SA for the reporting year 2018 amounts to the total of PLN 80,600 (PLN 26,300 for the review of the separate and consolidated semi-annual financial statements; PLN 54,300 for the audit of the financial statements of Makarony Polskie SA and the Makarony Polskie Group for 2019).

The remuneration of BDO Spółka z ograniczoną odpowiedzialnością sp.k. on account of the audit of the financial statements of Makarony Polskie SA for the reporting year 2018 amounts to the total of PLN 80,600 (PLN 26,300 for the review of the separate and consolidated semi-annual financial statements; PLN 54,300 for the audit of the financial statements of Makarony Polskie SA and the Makarony Polskie Group for 2018).

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

Corporate Social Responsibility

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



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

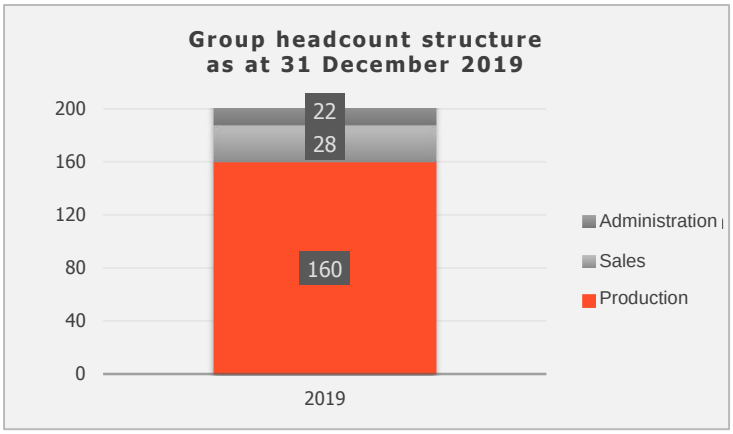
The Makarony Polskie Group applies utmost effort to follow the CSR (Corporate Social Responsibility) principles when carrying out its operating activity and accomplishing its business objectives. This concept is an important, constant and consistently developed element of the Group's identity.

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

Employees

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

In accordance with the adopted policy, the Makarony Polskie Group maintained the total headcount at the level of the necessary minimum. The headcount of the Makarony Polskie Group as at 31 December 2019 was to 210 people (compared to 186 people at the end of 2018 and 181 people at the end of 2017).



Diversity policy

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

HR planning and recruitment of employees

The increasingly stronger "employee market" and shrinking unemployment, as well as the consequent growing problems in finding qualified personnel, force the employers to focus on the effective use of human resources and fast reacting to changes. In order to ensure the optimum level of tasks and goals execution, the Makarony Polskie Group has undertaken actions aimed at effective HR planning, even before a real demand in this respect occurs. The Group has implemented and carried out systematic identification of future HR needs, in close cooperation with managers of organizational units.

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

By age and gender	Group headcount structure as at 31 December 2019		
	Women	Men	Total
18-29	16	23	39
30-49	58	56	114
50+	19	38	57

For its staff, the Makarony Polskie Group has been looking for people who have passion for new challenges, are ready to develop their talents on a continuing basis and willing to share their knowledge. At specialist and managerial positions, the Company prefers persons showing high professionalism, entrepreneurship, and involvement, who want to develop themselves professionally, enjoy their work and can cooperate with other people.

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

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

Placements and apprenticeships

The Makarony Polskie Group appreciates the value and competencies of young people as well as their enthusiasm and creativity. Therefore, the Group gladly participates in various placement programmes addressed to students and graduates. The Group also enables secondary and higher education students to serve their apprenticeship. In 2019, 11 people took advantage of such apprenticeships.

In 2019 the Makarony Polskie Group offered a new apprenticeship program for graduates, fully financed from the Company own funds. The program lasts 3 months. It is directed to young, ambitious people, who are making their first steps in their professional career. The purpose of program is to facilitate the people who are entering the labor market to gain practical skills in the current business operations. The apprentices learn about the organization of the Group and the operation of its business units. The Group has planned to propose long-term employment to the best apprentices.

Training

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

In 2019, in the formula of internal trainings, the Group carried out mainly the project Kuźnia talentów [Talent Forge] addressed to young managers at the beginning of their professional careers. There were mainly trainings concerning the development of managerial skills, the art of public speaking and presentation, as well as assertive communication carried out.

The employees of various levels availed of open external training, refreshing and extending their knowledge in the scope needed for the effective performance of duties at their positions, in the changing technical, engineering, qualitative and legal environment.

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

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

Remuneration system

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

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

The variable part of the remuneration depends on the level of execution of individual goals/tasks set by the superiors, involvement of specific employees, their conscientiousness

and care applied in the work performed, improvement of productivity and quality of work as well as special achievements related to execution of the tasks set by the superiors. The purpose is to motivate the employees to have very good work results compliant with the business interest of the Group.

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

In 2019, there were no significant changes in the remuneration system adopted at the Group.

OSH

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

In 2018, there were reported five minor accidents at work at the Group.

Natural environment

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



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

the specific fractions. The Group has been carrying out education and information actions in order to raise the staff environmental awareness.

In 2019, Makarony Polskie SA carried out investment projects aimed at improving the effectiveness and energy-consumption of pasta manufacturing processes, e.g. installation of modern production lines in the plant in Rzeszów, modernization and extension of the cold store for storing raw materials in the plant in Częstochowa.

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

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

Market

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

Caring for its development, Makarony Polskie SA has been performing EU projects. The purpose of one of such projects is the creation of a Research and Development Centre for the Pasta Industry where works will be carried out on innovative health-promoting products to be implemented in the business of the Company in the form of a new product line.

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

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

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



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

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

The achievements of the Group have been appreciated, which is expresses in a number of awards and special mentions granted to the Group and its products in 2019.



In March, Makarony Polskie SA was awarded in the category of food production on the occasion of 20 years of the Company's business activity.



In May, 5-egg noodle pasta offered under the Makarony Polskie brand was awarded Złoty Paragon 2019 Nagroda Kupców Polskich [Golden Receipt 2019 - Polish Merchants Award] in the "Pasta" category.


KAPITUŁA PROGRAMU CERTYFIKUJĄCEGO NAJLEPSZE PRODUKTY SPOŻYWCZE PODKARPACKIEGO PRZYZNAJE

CERTYFIKAT

„SMACZNE BO PODKARPACKIE"

dla

Makarony Polskie S.A.

Gniazda jajeczne z mąki durum,
Wstęgi jajeczne z mąki durum

na okres od 11' 2019 do 12' 2020

In 2019, egg ribbon and fettuccine made of durum flour under the Makarony Polskie brand were awarded the "Smaczne bo Podkarpackie" certificate [It is tasteful because it comes from the Podkarpackie Province].


CERTYFIKAT

Podkarpackie

„MAKARON- GNIAZDKA WAŁKOWANE 5-JAJECZNE"

5-egg rolled fettuccine under the Makarony Polskie brand was awarded the „Jakość i Tradycja" [Quality and Tradition] title.


GAZELE BIZNESU 2018

STOCZEK NATURA Sp. z o.o.

face

In February 2019, the fact that Stoczek Natura Sp. z o.o. belongs to the group of the fastest developing companies was confirmed by the obtained "Business Gazelles 2018" title.

Community

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

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

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

Cooperation with schools and universities

The Group companies have established long-term relationships with universities. For instance, Makarony Polskie SA cooperates with the University of Rzeszów in the field of R&D and with

the Poznań University of Life Sciences, whereas Stoczek Natura Sp. z o.o. cooperates with the University of Life Sciences in Lublin.

Charity activities


Związek Harcerstwa Polskiego
Hufiec Ropczyce

Harcerze i Instruktorzy Hufca ZHP
Ropczycko-Sędziszowskiego składają podziękowanie
Zenonowi Daniłowskiemu
Prezesowi Zarządu
Makarony Polskie

Ropczyce, luty 2020 r.

For many years the Group has carried out charity activities of various kind at local and national level, providing support to children in need (Christmas campaigns and St. Nicholas' Day events, support of recreation during summer holidays), hospices (Rzeszów Hospice for Children), social aid centers (including, but not limited to Caritas Foundation of the Rzeszów Diocese), foundations (Fundacja Dziedzictwa Kresowego we Lwowie [Borderland Heritage Foundation in Lvov]), scouting and guiding associations ("Hufiec" Polish Scouting and Guiding Association in Ropczyce) and schools.


PODZIĘKOWANIE
z okazji Dnia Dziecka
dla Makarony Polskie S.A.

For a few years, the Group companies have been actively involved in various initiatives of the Rzeszów Hospice for Children, such as, St. Nicholas' Day events, gifts for kids staying at the hospice and for their brothers and sisters on the Children's Day.


PODZIĘKOWANIE
dla
FIRMY MAKARONY POLSKIE S.A.

In 2019, the Group cooperated with the Caritas Foundation of the Rzeszów Diocese and Borderland Heritage Foundation in Lvov. The Group companies supported the holiday recreation of children organized by the "Equal Opportunities" Society and the Catholic Youth Society of the Rzeszów Diocese.

Patronage and sponsoring of culture and sports

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

In 2018 the Group participated, for instance, in such initiatives as:

Sponsoring of the "27th Polish First Aid Championship of the Polish Red Cross organisation" held in Rzeszów in April 2019, within which the Makarony Polskie Group companies founded the prizes for the Championship participants and laureates.

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

Sponsoring of the 26th Rzeszów Juwenalia (Juvenile Festival), being one of the largest students' projects in the Podkarpacie Region, organised by three universities based in Rzeszów: the Technical University of Rzeszów, the Higher School of IT and Management, and the Higher School of Law and Administration, awarded by the prestigious ProJuventus statuette in the years 2014 and 2018, in the category of the "Best Juwenalia in Poland".



Ongoing sponsoring by Makarony Polskie SA of the sports activities of Anna Kubiak, the World Champion in taiji forms. In addition to national competitions, as a member of the Polish National Team, she represents our country in various international competitions, including the European and World Championships. In 2019 she won the gold medal at the Kung Fu World Championship.





Sponsoring of the beach volleyball team of Martin Chiniewicz and Michał Korycki in 2019. The highest achievement of the sportsmen was the fourth position in the one-star World Cup in Malbork in August 2019. In the country, their victory in the Polish Championship in Rybnik in 2018 was of considerable importance. What is more, the volleyball players stood three more times on the podium of the tournaments included in the preliminaries of the Polish Championship. .

Sponsoring of the 12th PKO Rzeszów Halfmarathon which attracted many people and fans of running.



Declarations by the Management Board

Declaration with regard to fairness of the consolidated financial statements

The Management Board of Makarony Polskie SA declares that according to its best knowledge, the annual consolidated financial statements of the Makarony Polskie Group for the reporting year ended on 31 December 2019 as well as comparative data have been prepared in accordance with the binding accounting principles and reflect in a true, fair and transparent manner the assets, financial standing and financial result of the Makarony Polskie Group.

Declaration with regard to fairness of the separate financial statements

The Management Board of Makarony Polskie SA with its registered office in Rzeszów declares that according to its best knowledge, the annual separate financial statements of Makarony Polskie SA for the reporting year ended on 31 December 2019 as well as comparative data have been prepared in accordance with the binding accounting principles and reflect in a true, fair and transparent manner the assets, financial standing, and financial result of Makarony Polskie SA.

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

The Management Board of Makarony Polskie SA declares that according to its best knowledge, the report of the Management Board on the operations of Makarony Polskie SA and the Makarony Polskie Group in the reporting year 2019, ended on 31 December 2019, comprises a true image of the development, accomplishments and standing of the Company and the Group, including a description of basic threats and risks.

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

Zarząd Based on the declaration of the Supervisory Board of Makarony Polskie SA with regard to the selection of an audit firm to carry out the audit of the annual separate financial statements of Makarony Polskie SA and consolidated financial statements of the Makarony Polskie Group for the reporting year 2019, ended on 31 December 2019, the Makarony Polskie SA Management Board informs that:

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

Approval of the financial statements

This report of the Management Board on the operations of Makarony Polskie SA and the Makarony Polskie Group in the reporting year 2019 was approved for disclosure by the Management Board of the Parent Company on 8 April 2019.

Zenon Daniłowski
President of the Management Board

Information about the Company



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

www.makarony.pl

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

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

Tel. 17 875 30 10, fax 17 875 30 20.

Please contact us at:

relacje@makarony.pl

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