

The letter of the President of the Management Board of the Holding Entity of PEPEES Capital Group

Dear Sirs and Madams,

I hereby present the annual report of PEPEES Capital Group for 2019 that was another good year for the Group. It maintained its business presence on the market reaching total revenues in the amount of PLN 232 million (decrease by 3.3% as compared to 2018) and earned profit from sales in the amount of PLN 79 million (increase by 9.2% as compared to 2018).

Due to the droughts in 2019 and smaller availability of the raw material, the potato campaign was smaller in terms of the volume than in the preceding year. Consequently, PEPEES Capital Group tried to protect the domestic market, selling its products mainly in Poland. Therefore, it managed to maintain the domestic sale on a very similar level than in the previous year (growth by 0.5%). However, exports and intra-Community supplies suffered from that (fall by 10%).

A small fall of the value of revenues was accompanied by recognizable fall of own costs of sale (by 8.7%) and other operating costs (by 22.2%), which translated into generation of gross profit at the level of PLN 32.5 million as compared to gross profit of PLN 30.4 million in the comparative period. The net profit allocated to PEPEES's shareholders in 2019 amounted to PLN 24.1 million as compared to net PLN 23.1 million in 2018, which means a growth by more than 4%.

The Capital Group fulfilled consequently the assumptions of the adopted Strategy for 2024, according to which PEPEES's mission is to strengthen its leading position in agricultural and food processing, providing a wide offer of starch products and implementing innovative products. The Issuer intends to continue to create the satisfactory value of shareholders, ensure satisfaction of employees and enable development of agricultural production in Poland thanks to creation of long-term relationships with farmers, guaranteeing them stability and profitability of crops.

Under the Strategy, the Company also supports development of its customers, offering them high quality starch products made of agricultural crops and implementing innovative products.

I would like to inform you that PEPEES Company also negotiates possible cooperation with Korean Daesang Corporation ("Daesang"), including in relation to production of potato starch modifiers. On 5 November 2019 the Company sent a draft letter of intent to Daesang in respect to negotiations in good faith about cooperation in production of potato starch modifiers and other starch derivatives, including necessary research and respective investments.

On 25 February 2020 the Company and Daesang signed the Letter of Intent, in which the parties undertook to continue their cooperation. After the Letter of Intent is signed, the parties will start to implement it.

At the moment, the Management Board of the Holding Entity is not able to assess what will be the impact of possible cooperation on the results of the Group.

The Group's main objective is still the maximum return on investments, while maintaining moderate level of investment risk. The Group's strategy assumes increase of efficiency of operations of the companies belonging to the Capital Group and maximum reduction of risks, to which they are exposed, and performing investment activities.

The key objectives of the development strategy of PEPEES S.A. include development of the company and increase of production. Mainly numerous innovative activities, including new production lines, ensuring higher production capacity enable achievement of such objectives by the Company. The Company intends to extend the portfolio of offered products (including by starch modifiers), diversify target markets, and mainly extend the base of used raw material.

PEPEES Capital Group endeavours to increase the starch production, thanks to which it will be able to compete with foreign companies. The Group's Strategy assume short-term tasks, like for instance the ones related to improvement of the condition of the starch production market in Poland and conditions of operation for farmers, as well as long-term activities aimed at consolidation of the starch industry. The Group cares for good relationships with farmers, which will make possible to build a group of regular supplies of raw materials thanks to clear and legible contracting system.

The Strategy of PEPEES Group assumes systematic increase of competitiveness in respect of quality and costs in relation to the leading Polish companies operating in potato processing industry.

I am deeply convinced, that we were successful again and I want to thank all Shareholders, Customers, Supplies and Employees of the Group, without whom achievements of such good results would not be possible.

Now it is difficult to assess the perspectives of the Group's value growth in 2020 due to announced epidemic condition in result of spreading coronavirus COVID-19 and taking into account the activities undertaken by the state administration in Poland and other countries. It is not sure how long the epidemic condition will be maintained and how it will translate to the operation of the Polish and global economy. At the moment the Group is not able to assess full consequences of coronavirus pandemic and activities undertaken by the state administration in this respect, but it can be pointed out that maintenance of such condition for a longer time will surely have negative impact on the financial results.

I would like to ensure you that we monitor the development of the situation related to COVID-19 pandemic in Poland and globally on ongoing basis, verifying all information from the perspective of its impact on the economic condition of the Group and we undertake ad-hoc activities to minimise consequences related to this extraordinary circumstances.

*Kind regards,
Wojciech Faszczewski
President of the
Management Board*