

Letter from the President of the Management Board of the Holding Company of the PEPEES Capital Group

Ladies and gentlemen,

I am presenting to you the Annual Report of the PEPEES Capital Group for 2020, which was another good year for the Group. Despite unfavorable circumstances related to the COVID-19 pandemic, the Group maintained its current business position in the market, achieving total revenues of PLN 211 million and generating a profit on sales of PLN 5.2 million. The Group's revenues decreased compared to the previous year as a result of a significant decrease in starch prices on the global market, which was due to the high supply of this product. The decrease in revenue was accompanied by a simultaneous increase in the cost of goods sold. This was due to logistical problems, increased transport costs and also new costs related to the purchase of disinfectants and personal protective equipment for employees, as well as to the adaptation of individual posts to safe working conditions.

The decrease in revenue with a simultaneous increase in costs translated into a gross profit of PLN 8.9 million, compared to PLN 32.5 million in the comparative period. On the other hand, the net profit attributable to PEPEES shareholders in 2020 was PLN 6.3 million with a net profit of PLN 24.1 million in 2019.

Pandemic has adversely affected export sales. Many foreign markets temporarily complete froze the economy by shutting down factories and production plants and introducing other administrative restrictions on the movement of people and goods, which resulted in a decrease in sales of the Group's products in these markets.

The past reporting year was undoubtedly a period characterized by unprecedented circumstances: uncertainty, enormous volatility of the market environment, as well as numerous difficulties in forecasting even the near future. Despite the prevailing pandemic, Group companies maintained high production levels. Since the first information about the spread of the coronavirus emerged, the Group has taken a number of measures to minimize the negative impact of the pandemic on its operations, both in the area of employee safety, preservation of operating capacity, financial liquidity and performance.

It should be added that all companies in the Group operated without any disruptions. No unused production capacity occurred due to the pandemic, but on the contrary, the PEPEES Company in 2020 made a record-breaking processing of potatoes into starch.

It is also worth noting that in this difficult period the Group did not reduce salaries or working hours of the employees and did not make layoffs. Moreover, the Group did not receive any non-repayable subsidy or grant government support, nor did it benefit from any other non-repayable or subsidy-like elements of the anti-crisis shield.

Despite difficult conditions, the Capital Group continued to realize the assumptions of the Strategy adopted until 2024, according to which PEPEES S.A.'s mission is to strengthen its position as a leader in the agri-food processing sector, offering a wide range of starch products and implementing innovative products. The Issuer intends to continue to create satisfactory value for its shareholders, ensure satisfaction of its employees and enable development of agricultural production in Poland by building long-term relations with growers, guaranteeing them stability and profitability of raw material crops.

As part of the implementation of the Strategy, the Company also supports the development of customers by offering them high quality natural starch products made from agricultural raw materials and implementing innovative products.

The Group's main objective is still to achieve the maximum rate of return on investments while maintaining moderate level of investment risk. The Group's strategy assumes increase of efficiency of activities of the Capital Group companies and mitigation of risks to which they are exposed, as well as performance of investment activities.

The Group cares about good relations with growers, which will allow it to build a group of permanent suppliers of raw material through the use of a clear and transparent contracting system.

The development strategy of PEPEES Group assumes systematic raising of competitiveness and the cost relationship as compared to the leasing Polish companies of potato processing.

On February 19th 2021, a Preliminary Agreement for the sale of shares in CHP Energia was signed between PEPEES S.A. as the Seller and Orlen Południe S.A. as the Buyer. The transaction was completed on 18.03.2021 through conclusion of the final agreement on sale of all shares in CHP Energia. The sale of shares in CHP Energia sp. z o.o. to ORLEN POŁUDNIE S.A. guarantees stable collection and utilisation of crushed potato pulp over a period of at least 10years.

I believe 2020 was a test of the correctness of the decisions made by the Management Board and its choices. This period has proven to us how important the foundations of doing business are. In my opinion, all tasks have been carried out in an exemplary manner through: stable and diversified sources of funding, product focus and unchanged customer orientation, an attractive offer, the competence of the team employed, management efficiency and caution in incurring debt, combined with restraint in the cost area. The results achieved in 2020, bearing in mind the ongoing pandemic, look satisfactory against the high results achieved in previous years.

I firmly believe that together we have once again achieved the success for which i would like to sincerely thank all the Shareholders, Customers, Suppliers and Employees of the Group, without whom it would not have been possible to achieve such satisfactory results in these difficult circumstances.

*With kind regards,
Wojciech Faszczewski
President of the
Management Board*