

Note from the President of the Management Board of the Parent Company of PEPEES Capital Group

Dear Sirs and Madams,

I am handing over to you the annual report of PEPEES Capital Group for the year 2022, which extended a series of unfavourable years - full of uncertainties and unprecedented events. For all, it was another extremely challenging year with a combination of several unfavourable market trends. It should be emphasised that many sectors did not manage to recover after the pandemic, and still they had to face another economic crisis, an incremental increase in costs and the galloping inflation. The continuing market uncertainty was further exacerbated by the outbreak of war in Ukraine, which caused temporary disturbances in many areas of the economy. The hostilities of the Russian aggressor and economic sanctions imposed on Russia gave rise to a significant energy crisis in Europe as the energy supplies (oil, gas and coal) from the East were discontinued, which drastically increased fuel prices. The increase in fuel prices has, however, translated into an increase in the price of transport services, and this, in turn, contributed to an increase in the prices of all products and services on the European markets.

Despite these unfavourable circumstances, the Group maintained its current business position on the market, achieving total revenues of PLN 255 million and generating a gross profit on sales amounting to PLN 76 million. It should be highlighted that the increase in revenues from sales was particularly influenced by higher prices of potato starch and other products manufactured by the Group on global markets than recorded in the preceding year.

Along with the increasing revenues, the cost of goods sold simultaneously decreased, which resulted in higher sales margins. Despite the financial expenses doubled due to an increase in the rate of interest on bank credits and lease contracts, the Group managed to close the year with a net profit of PLN 10 595 000 allocated to the shareholders of the parent company.

Despite continuing difficult conditions, the Capital Group continued to implement the provisions of its Strategy adopted until 2024, according to which the mission of PEPEES S.A. is to strengthen its position of a leader in the agri-food processing sector, offering a wide range of starch products and implementing innovative products. The Issuer intends to continue creating satisfactory value for shareholders, ensure employee satisfaction and enable the development of agricultural production in Poland by building long-lasting relationships with potato growers, guaranteeing them stability and profitability in growing the raw materials. The Group's main objective is to maximise investment returns while maintaining a moderate level of investment risk. The Group's strategy is to increase the efficiency of the Group's companies and minimise risks to which they are exposed, as well as conduct investment activities. The Group also aims to systematically increase its competitiveness to the extent of quality and costs in comparison to leading Polish businesses in the potato processing sector.

I would like to stress that we have lived through an extremely intensive year, during which the Group has strengthened its market position, and achieved a growth in sales and satisfactory financial results. The year has been a test for the Management Board's ability to make the right decisions and choices. In my opinion, all the tasks have been completed in an exemplary manner due to: stable and diversified sources of financing, focus on the product and unchanging customer orientation, attractive offer, competent team and efficient management. Considering all the unfavourable market circumstances, the results achieved in 2022 are satisfactory. It should be remembered that they were worked out in a very difficult geopolitical and macroeconomic environment, which adds to their value.

I am deeply convinced that, together, we have succeeded again, and 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 those difficult conditions. I believe that we have entered the year 2023 as a stable Capital Group with solid foundations and secure financing structure.

With the Russian aggressor still not intending to withdraw its troops from Ukrainian territory, a reasonable risk exists that all the unfavourable trends in the economy will continue in 2023.

However, I believe that due to our stable financial position, high-quality products and long-term experience, we will be able to deal with potential problems properly and remain a credible and reliable business partner continuing our adopted Strategy and increasing value and attractiveness for our Shareholders.

Respectfully,
Wojciech Faszczewski
President of the Management Board