

Letter of the President of the Management Board of the PEPEES Capital Group's Parent Company

To whom it may concern

Please find attached the Annual Report of the PEPEES Capital Group for 2021, which year was the second consecutive one involving operations under changing and demanding conditions due to the ongoing Covid-19 pandemic. Despite the prevailing pandemic, the Capital Group companies were capable of maintaining high production levels. The Group took a number of measures to minimise the negative impact of the pandemic on the operations in such areas as employee safety, maintenance of operational capacity, financial liquidity and performance. It is worth noting that all the companies in the Group operated without disruption.

Despite the unfavourable circumstances, the Group maintained its current business position on the market, achieving revenues in the total amount of PLN 221 million and generating a gross profit on sales of PLN 41 million. It is also worth noting that the sales revenues were particularly affected by increased sales to the EU member states (up by 22.4%) and increased export sales (up by 44.5%). This is attributable to the implementation of the PEPEES Capital Group Strategy for 2019-2024, whose assumptions were mentioned in previous years and which provides for the improvement of efficiency in the sales area, among other things.

The increased revenue was accompanied by the simultaneous increase in the cost of sales. This was attributable to logistical issues, increased transport costs and, further, 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.

Greatly increased costs, together with a fall in potato starch prices, contributed to reduced sales margins, as a result of which the year ended with a loss.

Irrespective of the difficult conditions, The Capital Group would consequently fulfil the assumptions of the adopted Strategy for 2024, according to which the mission of PEPEES S.A. is to strengthen its position of a leader in agriculture and food processing, providing a wide range of starch products and implementing innovative products. The Issuer intends to continue to create the satisfactory value for its shareholders, ensure satisfaction of its employees and enable the development of agricultural production in Poland thanks to the creation of long-term relations with farmers, while guaranteeing them stability and profitability of crops.

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

The Group's main objective is the maximum return on investments, while maintaining moderate level of investment risk at the same time. The Group's strategy provides for the increased efficiency of operations of the Capital Group companies and maximum reduction of risks to which they are exposed, as well as performing investment activities.

The Group cares for good relations with farmers, which will facilitate the creation of a group of regular supplies of raw materials thanks to clear and legible contracting system.

I do believe that we launched 2022 as a stable company with solid foundations and a secure financing structure, and that we are in good organisational and financial shape. I would

therefore like to sincerely thank all the Group's Shareholders, Customers, Suppliers and Employees, without whom it would not have been possible to achieve these results under such difficult conditions.

At the same time, it should be noted that we are publishing our report at a time of geopolitical turmoil related to the war in Ukraine. We are carefully analysing potential challenges and risks to the economy arising from the conflict. Upon the publication of the 2021 annual accounts, the situation is very dynamic. However, it appears that the Russian invasion is going to have a significant impact on world trade. The exchange rates used by the Group are subject to constant fluctuations, which carries the risk of unpredictability in forward foreign contracts or in contracts with deferred payment dates.

Prices of goods and services also fluctuate greatly. With all certainty, the prices of energy raw materials will increase due to the expected reduction in supplies from the East (oil, gas, coal); the reserves of energy raw materials will also be increased by all the European countries; therefore, their availability will be affected, similarly contributing to further increase in prices. The increased fuel prices will in turn cause an increase in the price of transport services, which in turn will cause an increase in the price of all products and services.

However, I do believe that our stable financial position and long-term experience will enable us to deal adequately with the apparent volatility and new risks in the economic environment

Kind regards
Wojciech Faszczewski
President of the Management Board