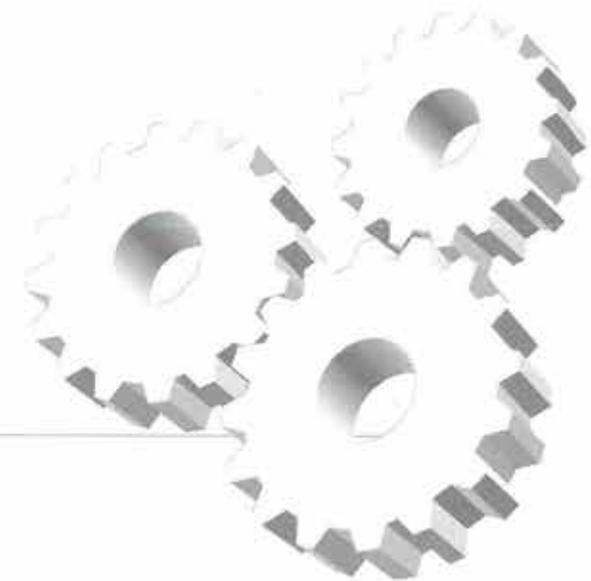




PEPEES Group Strategy for 2019–2024

Presentation

23 May 2019

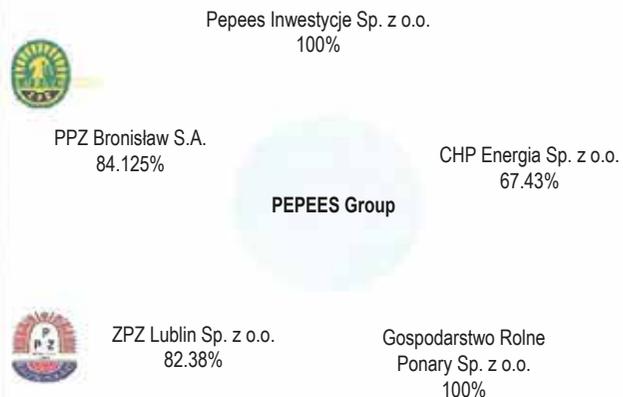


-  PEPEES Group today
-  Strategic objectives
-  Development paths
-  PEPEES Group in 2024
-  Summary



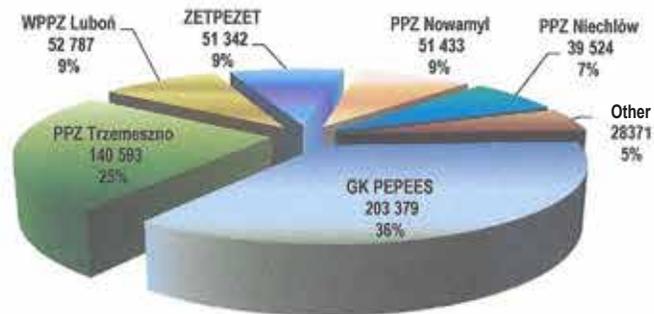
PEPEES Group today

PEPEES Group structure



The PEPEES Group as compared to the main Polish potato starch manufacturers in 2017

based on the data from income statements available in the National Court Register (KRS)



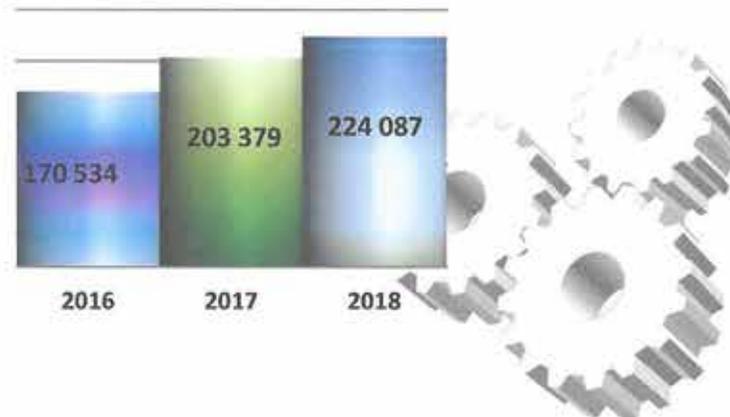
Products of the PEPEES Group by type



Sales revenue of the PEPEES Group

Revenue from the sales of products of the PEPEES Group [PLN '000]

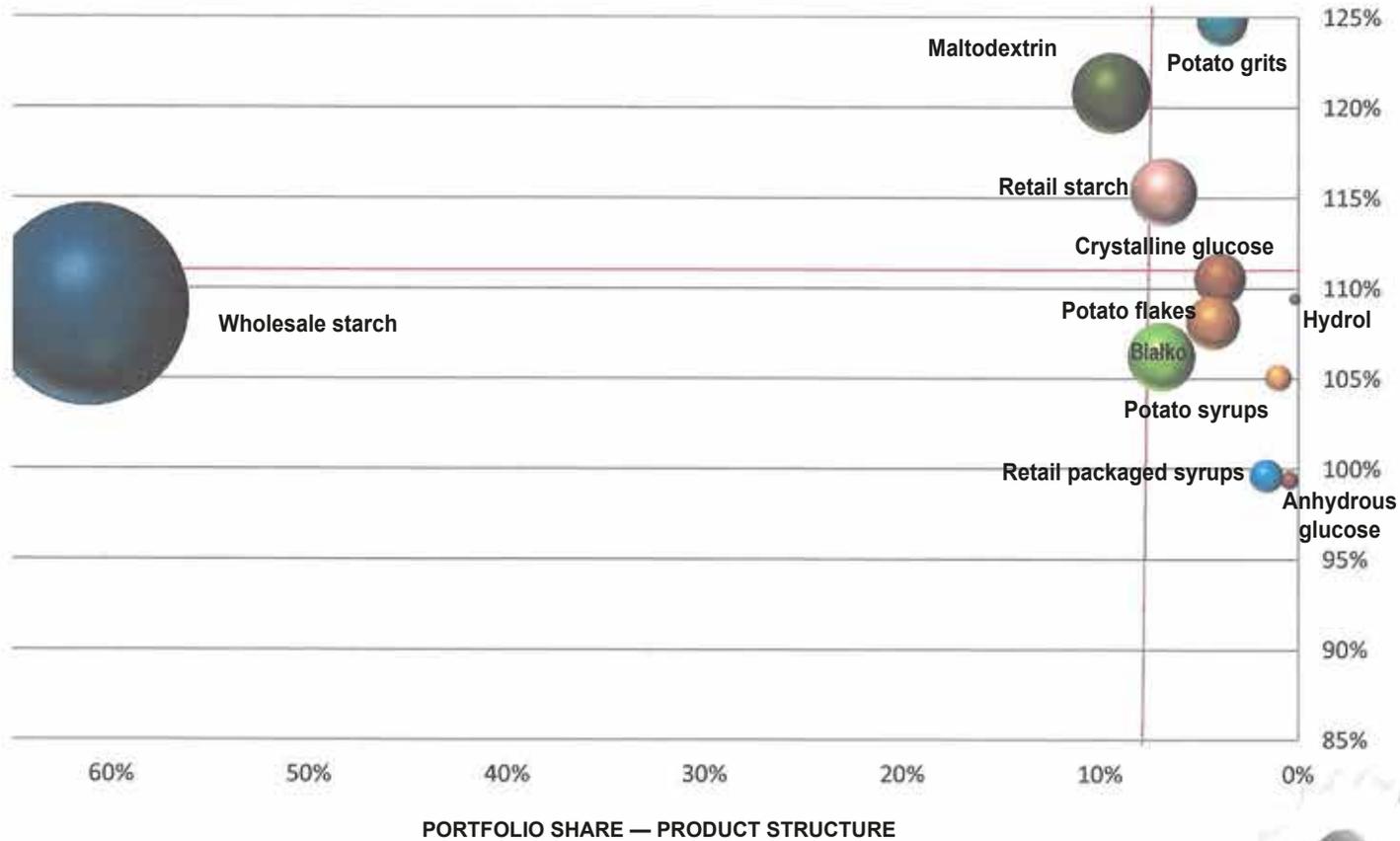
based on the data from the consolidated financial statements



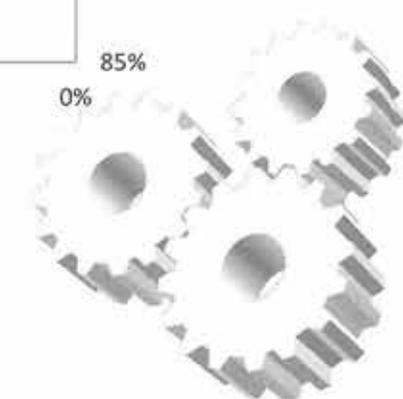
PEPEES Group today

Product group BCG matrix – total sales (Poland + exports) 2018/2017

PEPEES Group 2018



Characteristics of the product portfolio: [imbalance](#)



Strategic objectives

Vision

To promote the development of our Customers by offering them high-quality natural starch products manufactured from agricultural raw materials and implementing innovative products.

Mission

Building a national leader in the agricultural and food processing industry, which offers a wide range of starchy products and implements innovative products, offering a satisfying shareholder value, ensuring employee satisfaction and enabling the development of agricultural production in Poland by establishing long-term relationships with growers, ensuring the stability and profitability of their cultivation of input plants.

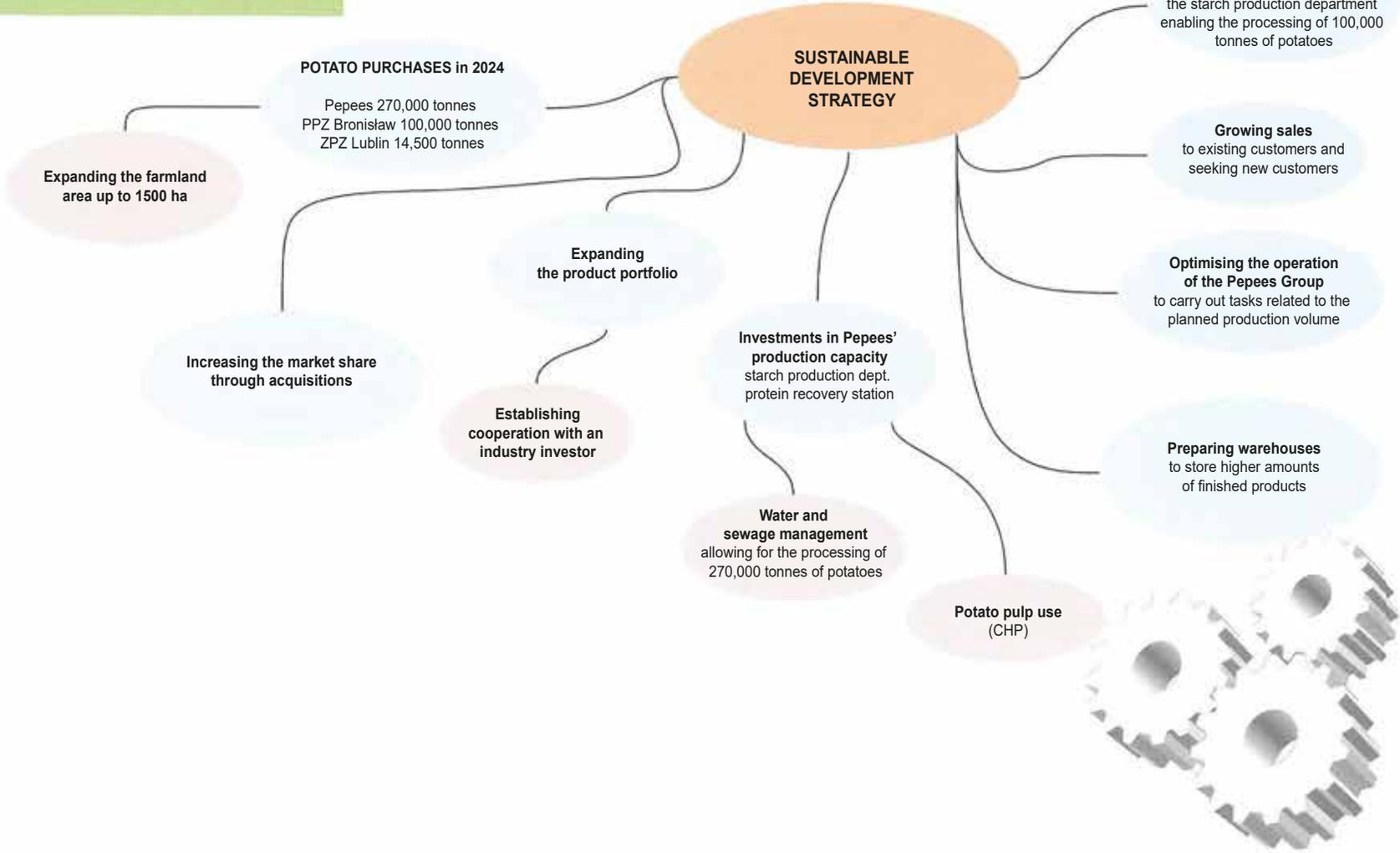
Strategic objectives

- **Increasing the value and market share of the PEPEES Group.**
- **Expanding target markets and the product portfolio, including modified products.**
- **Establishing cooperation with an industry investor.**
- **Intensifying and improving the input plant sourcing.**
- **Optimising the operation of the PEPEES Group.**



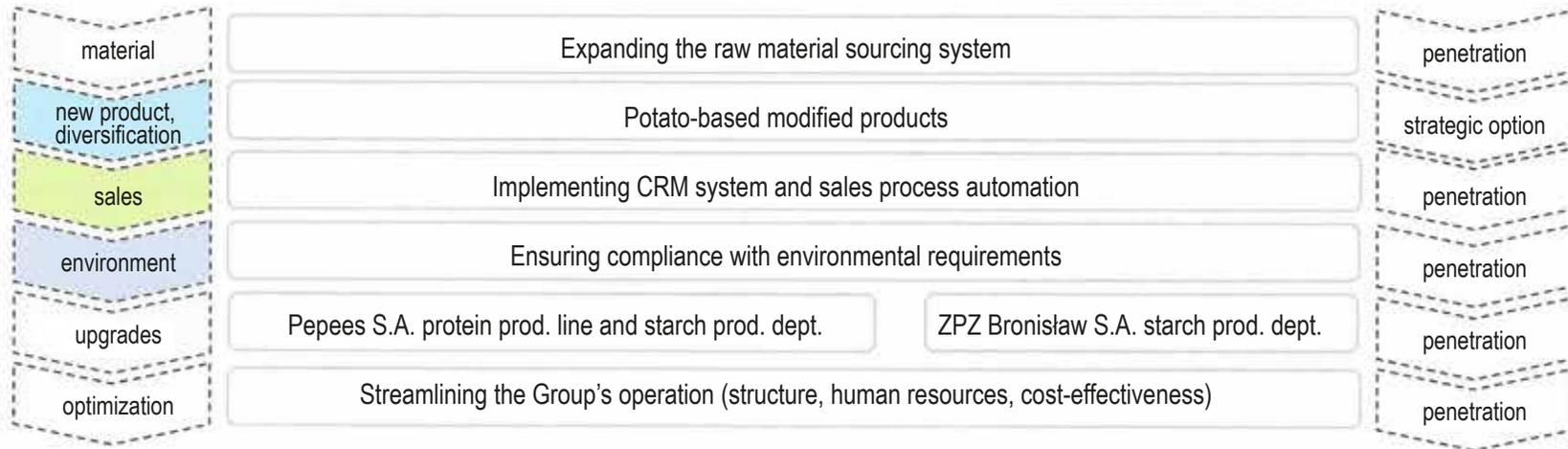
Strategic objectives

Revenue from sales of products expected in	2024	vs 2018
Pepees	210 mill.	158 mill.
PPZ Bronisław	76 mill.	44 mill.
ZPZ Lublin	17.5 mill.	17.4 mill.



Development paths Goal accomplishment paths

Market penetration strategy – sustainable growth (to 2024)

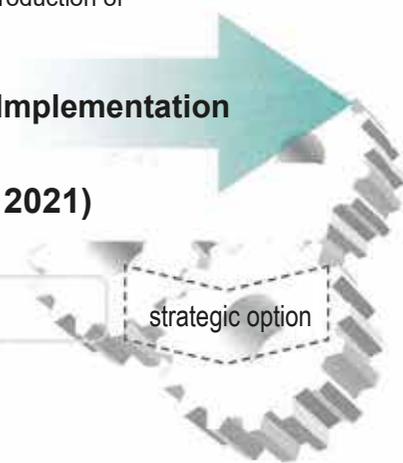
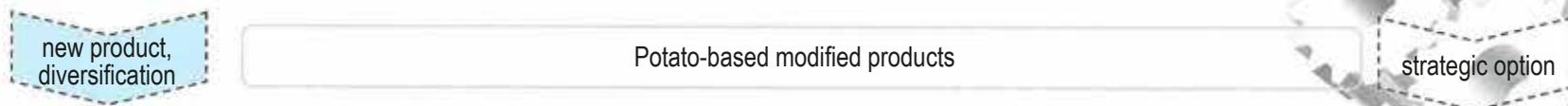


In the short term until 2021 – the PEPEES Group, using its own funds, loans, share issues and other external sources, plans to carry out activities aimed at increasing raw material purchases, modernising the production process, streamlining management processes and adapting the water and sewage management system to match the planned production value.

In the long term until 2024 – the PEPEES Group, using its own funds, loans, share issues and other external sources, plans to increase its sales value and market share through organic growth and acquisitions, better organise the warehouse management system, upgrade the starch production department (Pepees S.A.), transfer the production of ZPZ Lublin and optimise the use of real estate ensuring the Group development.

Implementation

Strategic option – New product and diversification strategy (from 2021)



Development paths Goal accomplishment paths

In the short term by the end of 2020 – the PEPEES Group plans to hold talks with strategic investors with appropriate know-how and access to the food and/or pharmaceutical market.

In the long-term until 2024 – using its own funds, loans, share issues and other external sources and assuming that some capital will be provided by an industry investor, the PEPEES Group intends to take measures that will enable the marketing of attractive products. The option considered is the marketing of starch-based modified products on the European food and pharmaceutical market.

Looking for a partner



Implementation

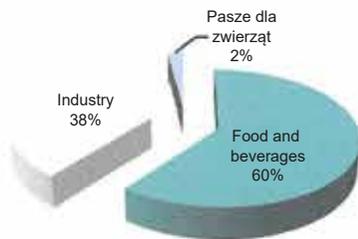


MODIFIED PRODUCTS			
MARKET	\$10.35 bn in 2018	INCLUDING \$750 MN – POTATO-BASED MODIFIED PRODUCTS	GROWING AT OVER 4% P.A.
OBJECTIVE	GENERATING MARGIN HIGHER THAN THE MARGIN ON NATIVE STARCH	PRODUCT PORTFOLIO DIVERSIFICATION	BOOSTING THE RETURN ON SALES
PRODUCT	CUSTOMIZED AND INTENDED FOR FOOD AND PHARMACEUTICAL MARKETS		
PARTNER	ENSURING KNOW-HOW AND OUTLETS		
APPLICATIONS	In pharmaceuticals: used to maintain a solid form of tablets and to release fast active substances in medicines taken orally. Used in the production of antibiotics, vitamins, penicillin, etc. In the food industry: used in the production of bakery products, processed foods and beverages.		

Development paths Goal accomplishment paths

Modified products market 2018 – \$10.34 BN, INCLUDING potato-based modified products – \$0.75 BN

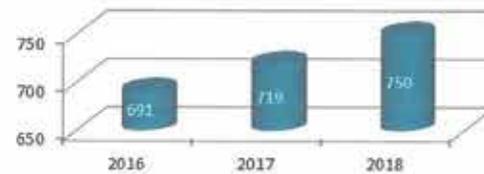
Market share in 2018 by application [USD]



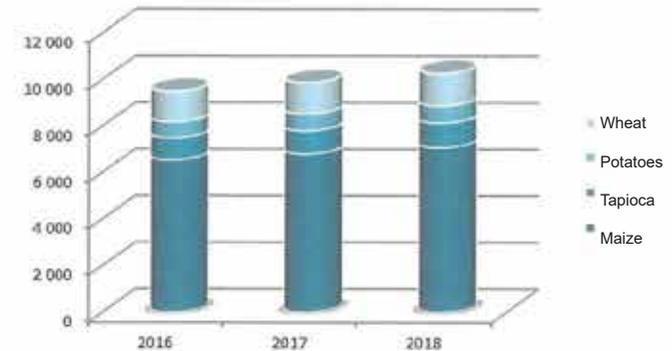
MODIFIED PRODUCTS MARKET [USD MN]

	2016	2017	2018
Maize	6 523	6 782	7 057
Tapioca	945	999	1 057
Potatoes	691	719	750
Wheat	1 306	1 349	1 394
Other	83	84	86
Total	11 564	11 950	12 362

POTATO-BASED MODIFIED PRODUCTS MARKET [USD]

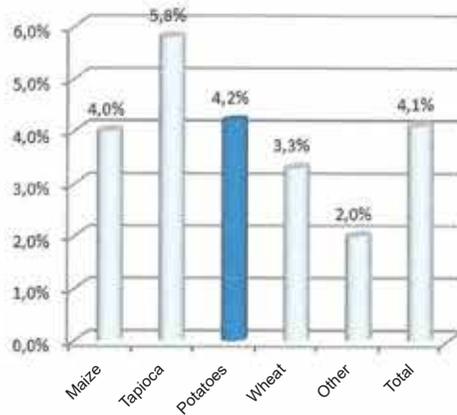


Modified products market by types of raw material [USD MN]

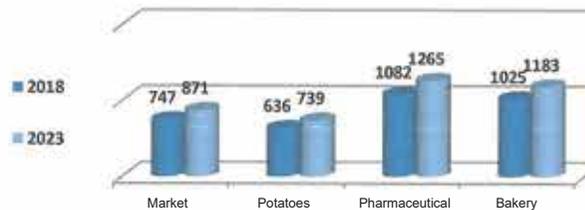


Modified products market – forecasts for 2023

Average annual market growth rate – 2023



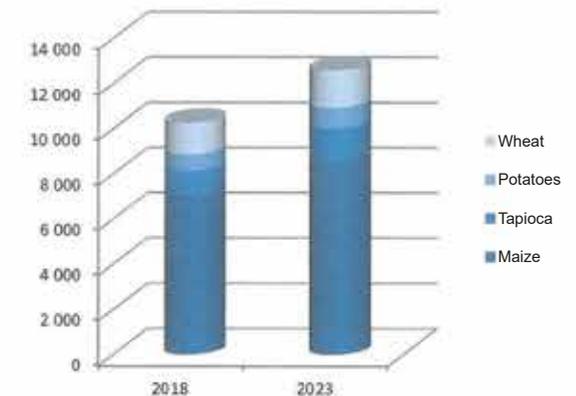
Projected price growth in selected market sectors



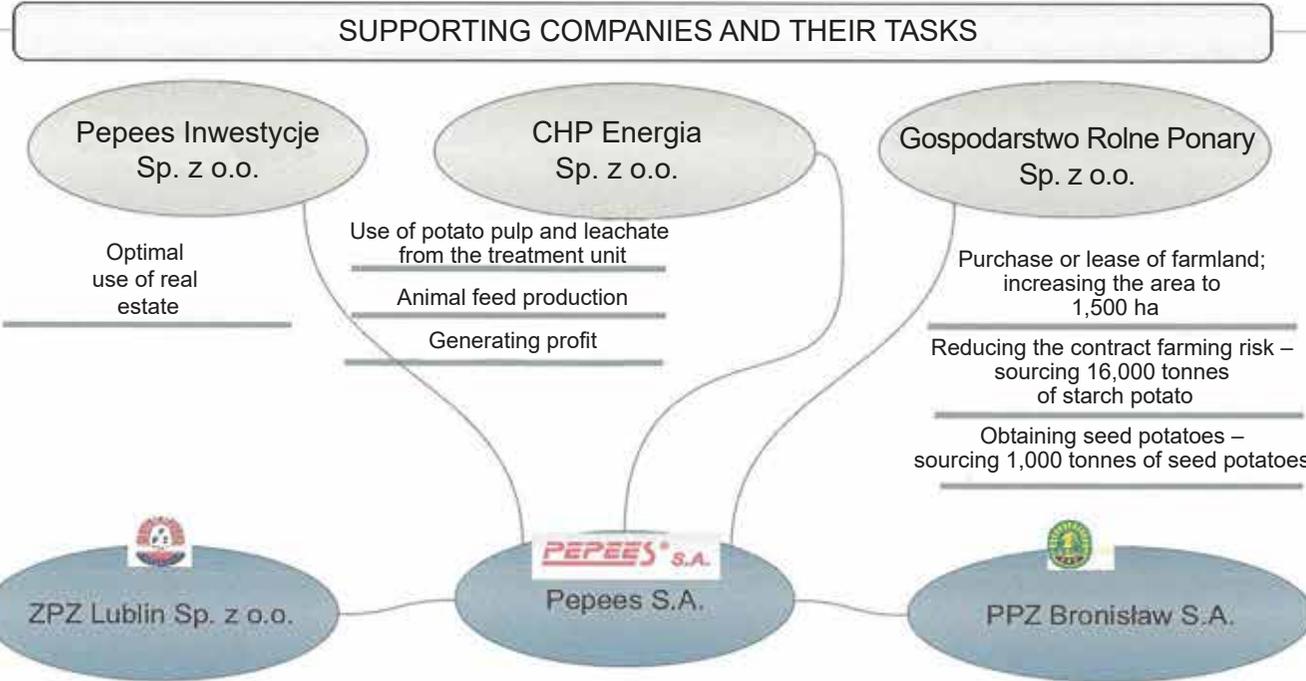
Projected potato-based modified products market value [USD mn]



Modified products market by types of raw material [USD MN]



Development paths Goal accomplishment paths



- Pepees Investments Sp. z o.o.**

 - The purpose of Pepees Inwestycje Sp. z o.o. is to optimise the use of real estate.
- CHP Energia Sp. z o.o.**

 - An agricultural biogas plant near Szeptetowo converting the pulp produced in the production process into electricity. 700 KW/h of produced energy sold to the power companies and the surplus is used to meet own needs. The company development is limited by the capacity of the connection; the expansion of the connection is related to high capital expenditure and formal and legal difficulties connected to the installation of the connection on privately owned land.
 - An animal feed production project has been prepared and implemented this year. This project will ensure good economic viability for the enterprise and help manage the pulp having regard for the potato processing activities planned for 2024.
 - Currently, research is conducted on the possibility of treating concentrated wastewater from the protein line in a membrane water treatment unit and the possibility of using the leachate from the biogas plant.
- Gospodarstwo Rolne Ponary Sp. z o.o.**

 - At present, the company has farmland leased in Ponary and Głędowo with the total area of 870 ha. The production is 500 tonnes of seed potatoes and 7,000 tonnes of starch potatoes to meet the Group's own needs. By leasing or purchasing farmland, the company intends to increase the area to 1,500 ha, and increase the production to 1,000 tonnes of seed potatoes and 16,000 tonnes of starch potatoes.

Development paths

Goal accomplishment paths – development projects

Expansion of the raw materials supply system

project objectives:

- increasing the purchase volume by Pepees S.A. to 270,000 tonnes in 2024
- increasing the area covered by contract farming agreements through the purchase or lease of farmland (increasing the area to 1,500 ha)
- increasing the number of contract farming agreements

planned measures:

- expanding the raw material base (encouraging existing growers to increase their areas and searching for new growers)
- establishing durable and stable business relationships with raw material suppliers
- measures aimed at improving the quality of the raw material
- improving the raw material logistics

Expansion and consolidation of the sales management system.

Export and domestic market development programme

project objectives:

- finding customers who would buy the planned volume of produced goods
- higher return on sales
- automation of sales processes

planned measures:

- implementing the CRM system
- defining and implementing the export sales development strategy
- developing and implementing a strategy to sell a higher volume of products made from processed potatoes
- developing and implementing the sales strategy for non-food markets

Reduction of unit labour costs

project objectives:

- reducing the cost of labour of the Maintenance Division
- reducing the cost of labour of the Production Division

planned measures:

- introducing electronic work registers for the Maintenance Division for repairs and investment projects
- introducing a work scheduling system for the Maintenance Division for quarterly periods
- improving the competences of production managers related to the management of working time of their subordinates, developing and implementing an incentive system based on the effective use of working time
- implementing an electronic working time measurement system for production jobs

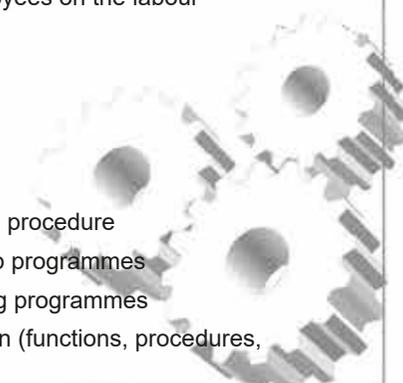
Human Resource Management

project objectives:

- reducing adverse effects of the retirement of expert employees
- developing a modern human resource management system
- reducing the risk of low supply of employees on the labour market

planned measures:

- developing new bonus granting rules
- improving the recruitment and selection procedure
- developing and implementing internship programmes
- developing and implementing mentoring programmes
- organising the HR Management Division (functions, procedures, employees)



Development paths

Goal accomplishment paths – development projects

Upgrading the protein recovery station at Pepees S.A.

objectives:

- an increase in the revenue from the sales of protein
- an increase in the production capacity; preparing lines for the processing of 2,500 tonnes per day
- reduction of the Technical Production Cost (TKW)

planned measures:

- purchasing the set of pumps for the protein line
- heat exchangers – preheating and cooling
- heat exchangers – heat recovery
- upgrading the electrical system and the C&I equipment
- upgrading the protein drying room

Potato-based modified products

objectives:

- making the investing decision (investing opportunities depend on
- finding an industry partner that will ensure know-how, markets and capital)

planned measures:

- finding an industry investor
- expanding the product range
- new outlets

Water and wastewater management

objectives:

- developing solutions for the disposal of wastewater from the processing of 270,000 tonnes of potatoes focusing in particular on concentrated wastewater from protein production

planned measures:

- expanding the area for sprinkling machines distributing wastewater
- building a membrane wastewater pre-treatment unit for the protein production line

Upgrading the 'wet' unit of the starch production department at Pepees S.A.

objectives:

- reducing the Technical Production Cost (TKW) for starch by reducing water and wastewater costs
- reducing electricity consumption
- reducing water consumption and the amount of sewage
- preparing the starch production department for the processing of 270,000 tonnes in 2024

planned measures:

- using the three-phase separation technology (a three-phase separators)
- assembling CIP in the starch production department (cleaning of closed systems)
- eliminating the 5th washout stage in the building of the Pump and Rinse Station (decanter centrifuges)
- electrical systems and the C&I equipment

Upgrading production – starch production department at Bronislaw S.A.

objectives:

- increasing the capacity of the starch production department to 1,200 tonnes
- ensuring the capacity to process 100,000 tonnes of potatoes p.a. until 2024

planned measures:

- purchase and launch of a new refining line
- purchase and launch of a new extraction line

Warehouse management

objectives:

- ensuring storage space to store higher amounts of finished products and starch for further processing

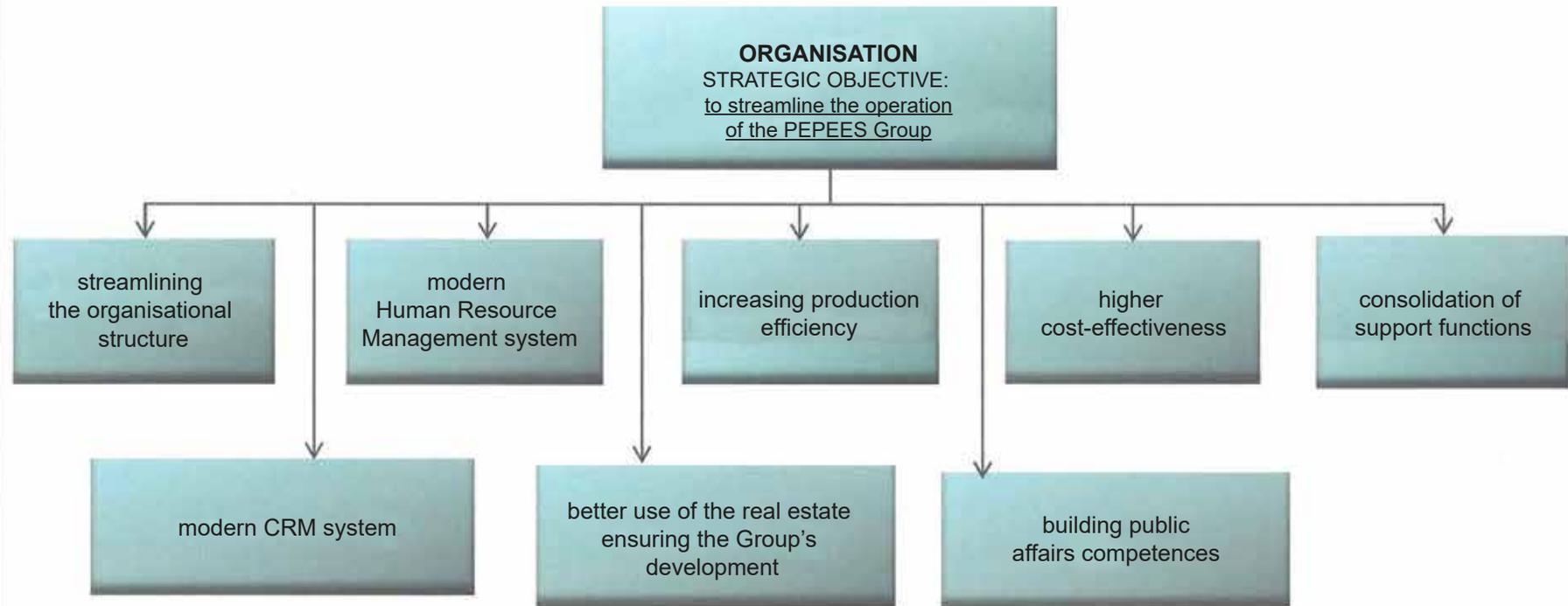


Identification of potential risks

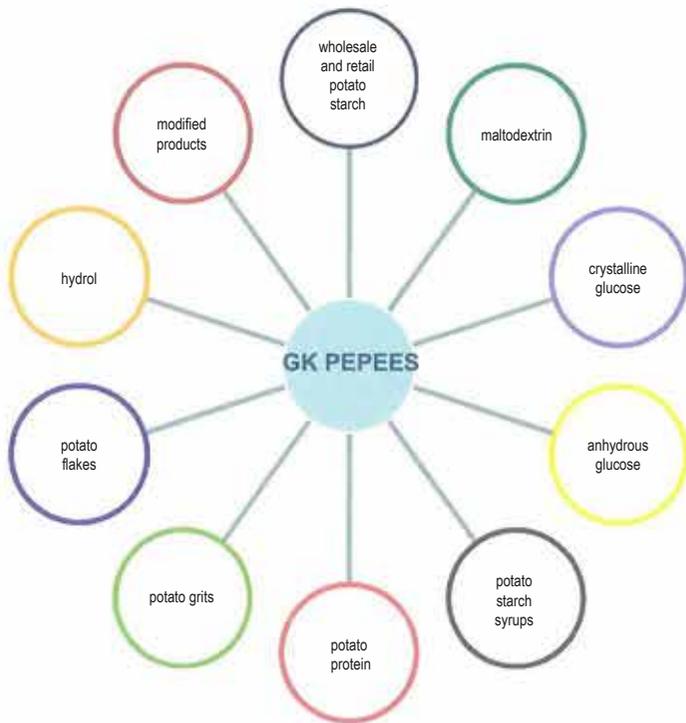
INTERNAL risks	EXTERNAL risks
<p style="text-align: center;">Insufficient level of raw material purchase vs. the plan</p> <p>risk mitigation:</p> <ul style="list-style-type: none"> expanding the coordinators personnel and the growers base motivating growers to increase their potato cultivation area <p>actions proposed when the risk is realised:</p> <ul style="list-style-type: none"> purchasing outside contract farming from the free market, regulation of prices 	<p style="text-align: center;">Weather conditions</p> <p>risk mitigation:</p> <ul style="list-style-type: none"> increasing the contract farming area, helping farmers obtain funds for irrigation <p>actions proposed when the risk is realised:</p> <ul style="list-style-type: none"> attempts to buy potatoes contracted by the competition
<p style="text-align: center;">Insufficient processing capacity; aging machinery</p> <p>risk mitigation:</p> <ul style="list-style-type: none"> investing in higher production capacity (increasing the capacity of protein recovery stations) upgrading the existing machinery ('wet' unit of the starch production department) ongoing maintenance, repairs, qualified production personnel and maintenance services <p>actions proposed when the risk is realised:</p> <ul style="list-style-type: none"> changes in raw material delivery schedules, storing raw material at the grower's place reducing daily processing levels extending the potato lifting period, raw material clamping partial redirection of the raw material to a company from the Group 	<p style="text-align: center;">Amendments to the Common Agricultural Policy – subsidies</p> <p>risk mitigation:</p> <ul style="list-style-type: none"> lobbying to preserve subsidies <p>actions proposed when the risk is realised:</p> <ul style="list-style-type: none"> increasing the purchase price
<p style="text-align: center;">Staff shortages, aging personnel, outflow of employees, the loss of key employees</p> <p>risk mitigation:</p> <ul style="list-style-type: none"> increasing the effectiveness of HRM actions, higher remunerations and bonuses, incentive system social package (e.g. additional health insurance) cooperation with schools (trainee periods, internships), implementing an internship programme to select candidates for technical jobs <p>actions proposed when the risk is realised:</p> <ul style="list-style-type: none"> temporary employment agency, searching for employees working overtime developing a mentoring programme to retain employees until new ones are trained 	<p style="text-align: center;">Human resources availability</p> <p>risk mitigation:</p> <ul style="list-style-type: none"> diversification of the sources of resources (foreign countries) improving recruitment and selection procedures, levelling remunerations to the labour market levels reorganising HRM functions in the Company <p>actions proposed when the risk is realised:</p> <ul style="list-style-type: none"> raising remunerations
<p style="text-align: center;">Insufficient storage space</p> <p>risk mitigation:</p> <ul style="list-style-type: none"> better use and acquisition of storage space building warehouses renting storage space 	<p style="text-align: center;">Restrictions on access to water (availability of water from the Narew River) risk mitigation:</p> <p>risk mitigation:</p> <ul style="list-style-type: none"> upgrading the 'wet' unit, the three-phase separation, eliminating the 5th washout stage upgrading the river water intake <p>actions proposed when the risk is realised:</p> <ul style="list-style-type: none"> replacing the river water with resources from own intakes
	<p style="text-align: center;">Wastewater management restrictions</p> <p>risk mitigation:</p> <ul style="list-style-type: none"> finding own waste disposal areas and/or own wastewater pre-treatment unit upgrading the storage reservoir <p>actions proposed when the risk is realised:</p> <ul style="list-style-type: none"> using the capacity of the storage reservoir
	<p style="text-align: center;">Availability of certified seed</p> <p>risk mitigation:</p> <ul style="list-style-type: none"> long-term contracts with seed potato growing stations diversification of seed potato suppliers, development of own seed potato production <p>actions proposed when the risk is realised:</p> <ul style="list-style-type: none"> purchase of seed potatoes on the free market

PEPEES Group in 2024

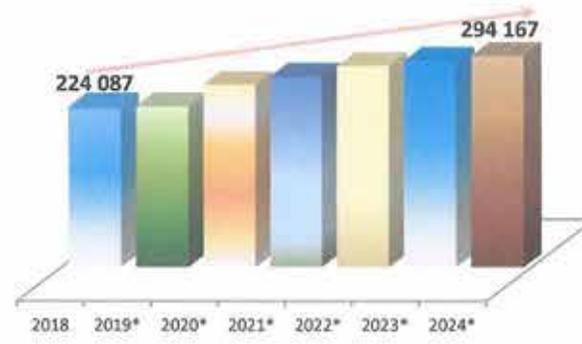
Organisation efficiency in 2024



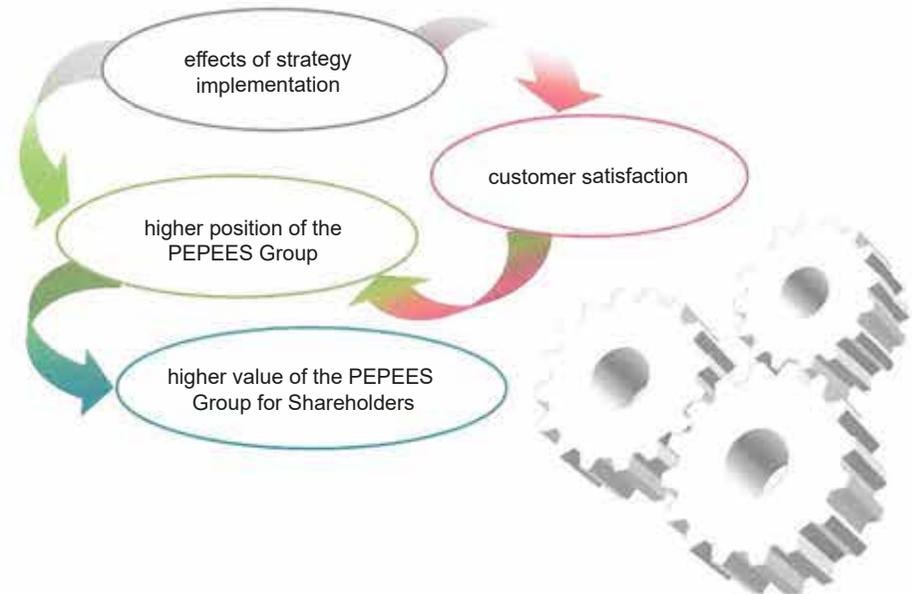
Products by type



Sales revenue 2018–2024

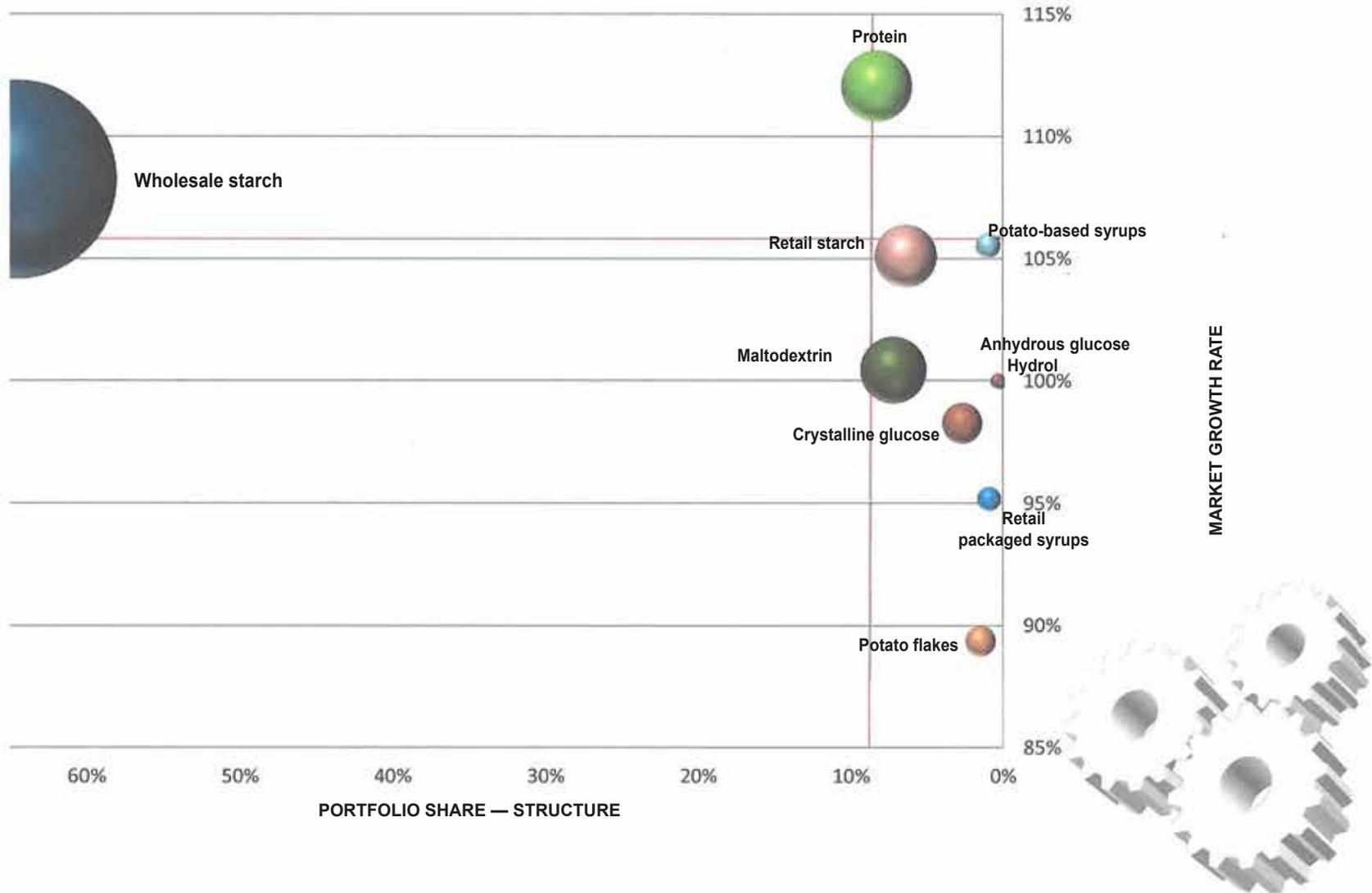


** / projected values 2019-2024*



PEPEES Group in 2024
Product group BCG matrix 2018–2024

PEPEES Group 2024 – expected product portfolio



PEPEES Group in 2024

Accomplished objectives = EFFECTS

Financial

- an increase in sales revenues to ~ PLN 294 million
- maintaining the return on sales
- fast growth of EBIT
- reduction of unit costs of sales and of the technical production cost
- reduction of the Company's operating costs
- improving the ability to raise capital and find new sources of financing
- increasing the value of the PEPEES Group

Operating

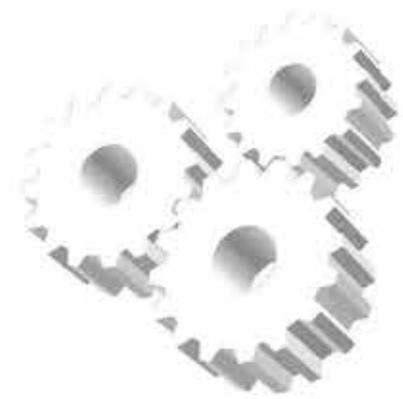
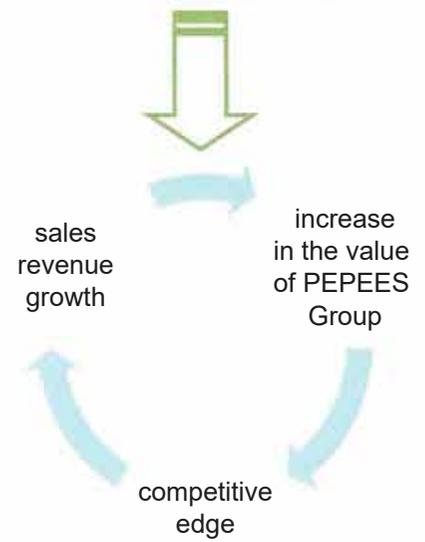
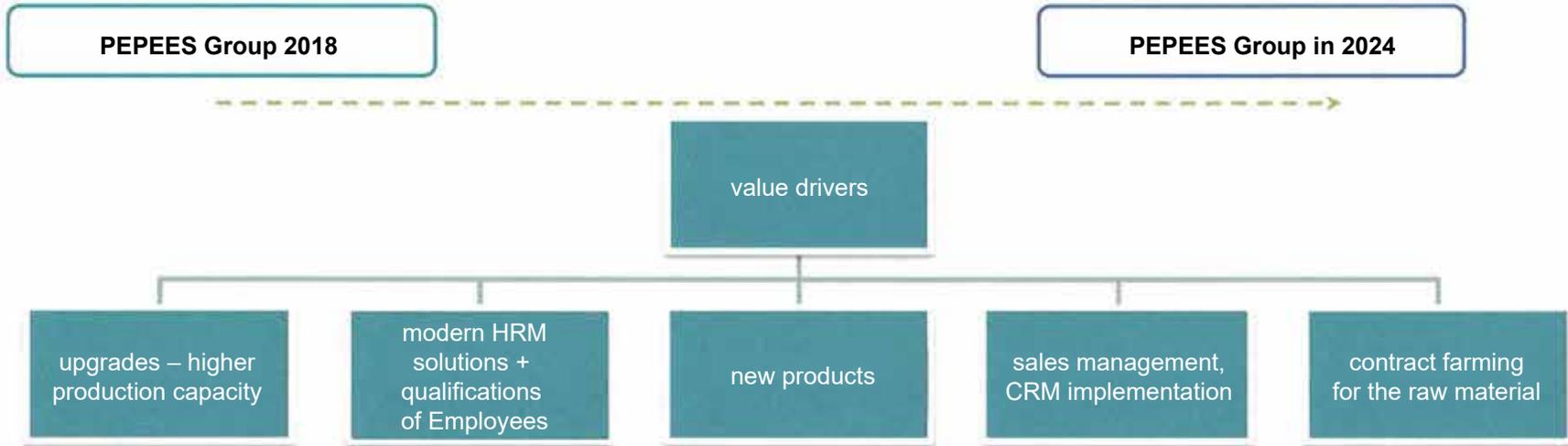
- increasing the purchase of raw material and its concentration
- improving the quality standards for the raw material
- diversification of the raw material for production
- extending the potato lifting period
- upgrading and expanding the machinery base and warehouse management
- higher production capacity
- more efficient use of fixed assets and human resources
- building the growth potential for the years to come

Marketing

- improving efficiency in the sales area
- higher sales volume
- bigger market share
- bigger scale of sales on external markets
- diversification of industry target markets (non-food sectors)
- improving the attractiveness and scope of the product portfolio – building the competitive edge
- balancing and expanding the product portfolio
- entering attractive markets with high growth rates and rates of return



Summary



PEPEES Group Strategy for 2019–2024

Thank you

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