



MANAGEMENT BOARD

**Address by Martina Dalić, president of the Podravka Management Board, to the shareholders of Podravka Inc. on the General Assembly held on May 17, 2023, in Koprivnica**

Dear shareholders of Podravka,

behind us is another General Assembly where, for our 12,497 shareholders - 12,381 individuals and 116 legal entities, we presented the results of the company's work in the past year.

It has been a year that has been far more challenging than any of us could have predicted. We had just learned to live and work with the COVID-19 pandemic, when the war in Ukraine hit us, which made the already complex business conditions even more difficult. After the strong rise in prices in 2021 and the stagnation in the supply chains, 2022 brought an unprecedented rise in the prices of all raw materials, packaging, and energy. Just to illustrate - at the end of 2022, compared to 2021, the stock market price of natural gas was higher by 252 percent, wheat by 45 percent, soybean oil by 47 percent, butter by 57 percent. During the year, these prices could be even higher. Such developments had a significant negative impact on the operations of the Podravka Group, primarily in the Food segment, where the cost of raw materials, packaging and energy increased by HRK 340.3 million or 24 percent in 2022. Purchase prices, which define production costs in the future period, in 2022 were more than double-digit percentages, up to 88 percent more compared to purchases in 2021. In addition, energy prices (primarily gas and electricity) rose significantly, which also put a lot of pressure on cost growth. A necessary and unavoidable consequence of the difficult circumstances on the market is the drop in profit and EBITDA margin, which affected not only the Food segment of the Podravka Group, but also the global food processing industry. However, Podravka undertook timely activities that, despite the decline in Prehrana's profitability, managed to maintain the absolute level of the Group's profitability, but what is even more important, the absolute level of newly created value, or EBITDA.

Although the Pharmaceuticals segment was strongly affected by the consequences of the war in Ukraine, we were able to implement a series of activities that reduced the risks of the Ukrainian and Russian markets to the extent possible. We collected receivables from customers without losses, regulating the commercial conditions with them, and everything in accordance with the regulations and circumstances of business in the markets of Ukraine and Russia.

In 2022, the total sales revenue of the Podravka Group reached HRK 5.03 billion, while the reported net profit was HRK 369.6 million, and the normalized net profit was HRK 311.1 million. The difference between the two profits results from the fact that the reported net profit includes the effect of one-time items, such as the sale of real estate owned by the company Žito d.o.o. in Ljubljana, while the normalized net profit represents the level of profitability that maintains regular operations, without one-time items.

The past year has clearly shown how important its diversified profile is for the successful operation of the entire Podravka Group, because the Pharmaceuticals segment and the Food segment are nevertheless exposed to different types of risks. Thus, last year's decline in EBITDA and profit margins in Nutrition was partly compensated by solid margins in Pharmaceuticals, achieved despite market challenges on export markets and limited drug prices. Ultimately, compared to the previous year, sales



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revenues of the Podravka Group grew by 8.5 percent, normalized net profit from business operations grew by 2.3 percent, while reported net profit grew by 19.5 percent.

This kind of result required a lot of knowledge, abilities and exceptional engagement of all members of the Podravka Group, all business segments, as well as all our employees. In the year behind us, success is a reflection of strategic planning, well-thought-out management of stocks and procurement processes, as well as quick adjustments to working methods aimed at maximum optimization of energy consumption. In addition, in order to successfully overcome global disruptions, it was important to focus on maintaining global competitiveness. In addition to active portfolio management, we did this through three key levers – cost optimization, a strong investment cycle and investment in employees. At the same time, Podravka increased the prices of food products in Croatia only once, at the end of the second quarter. The overall price correction was in the range of five to seven percent. In achieving these results, Podravka did not use the concessions in the price of energy products provided by the Government of the Republic of Croatia.

Despite all the challenges, we persisted in implementing the investment cycle outlined in the Podravka Group Business Strategy until 2025. Investments in technological modernization, digitalization, and the introduction of new technologies, increasing efficiency and energy efficiency remain our priorities. During 2022, we realized capital investments worth HRK 396 million, which is more than double what was realized in 2021. Investments in several new production lines were completed, work began on the expansion of Soups and Vegeta Factory, and the largest solar power plant on roofs in Croatia - the one on Danica - was put into operation. In the end, we carried out IT and energy reconstruction and modernization of Podravka's business headquarters in Koprivnica, which was renovated after 43 years, and we also air-conditioned all our plants, which significantly contributed to energy efficiency, and improved the working conditions of employees. The improvement of working conditions and the material position of workers were one of Podravka's focuses in the past year. Last year, Podravka increased wages and salaries on two occasions. In 2022, we invested HRK 76.5 million more than in 2021 in improving the material situation of workers. The average net salary of employees of Podravka Inc. in December 2022, it was 14 percent higher than that achieved in December 2021, while the average net income of employees of Podravka Inc. in December 2022, it was 18 percent higher.

Although the business in the past year required a lot of changes and activities aimed at solving the challenges brought by the crisis, the business strategy of the Podravka Group and the goals we have set with it have not been called into question at any time. This is confirmed by the business results, as well as activities aimed at the reorganization of Podravka's Food segment, business restructuring and production modernization in the Žito Group, updating the Pharmaceuticals business strategy and adopting the Sustainable Business Strategy and the new Nutritional Strategy.

By changing the organization of Podravka Inc. and the Food segment, we improved the efficiency of the Podravka Group, enabled faster reactions and adjustments to market changes, and more clearly separated roles and responsibilities between organizational units. In addition, the Podravka Group is committed to equal opportunities and equality for all employees, regardless of gender, and to zero tolerance for any form of discrimination. With 40 percent of women in the Management Board, Podravka Inc. is among the leaders of gender equality in Croatia, and with the implementation of the new organization, the share of women in top management has increased from 24 to 43 percent. On the last day of 2022, 52 percent of women were employed in the Podravka Group, and of the total



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number of highly educated workers, women make up as much as 65 percent. Although the wage gap by gender exists in the amount of 1.9 percent, it is far below the national average (11.2%) and the EU average (13%).

Restructuring of operations and modernization of production was carried out in Grupa Žito as well. It is a project that includes unifying the bakery in a smaller number of locations and focusing on bakery production, technological modernization of the bakery and full harmonization of business processes with the business processes of Podravka Inc. As a result of the business restructuring and changes in the organization, the efficiency of the Žito Group has increased, and investments in the modernization of the bakery, new production lines and investments in infrastructure are continuing.

Changes also took place in the Pharmaceuticals segment, whose business strategy is focused on two key focuses - the development and modernization of the portfolio and the development of new markets.

Even this year, we did not stop with the implementation of our plans. In 2023, we adopted a new Nutritional Strategy focused on a balanced and sustainable diet. Podravka adopted the initial Nutritional Strategy in 2014, and since then has reduced the amount of salt and sugar in its products and expanded its portfolio with a number of products without additives, flavor enhancers and colorings. With the new Nutritional Strategy for the period until 2027, we have confirmed our focus on healthy, balanced, and sustainable diet. We will continue to adapt and supplement Podravka's products in accordance with health recommendations, food trends and consumer needs. For the most part, this refers to the further reduction of salt and sugar, the introduction of ingredients that support a healthy and balanced diet, and the introduction of even more products that are based on ingredients such as fruits, vegetables, legumes, and whole grains.

The nutritional strategy is part of the broader Sustainable Business Strategy of the Podravka Group for the period from 2023 to 2030, which we also adopted this year. Podravka will invest 100 million euros in its implementation by 2030. With the strategy, we set ten main goals contained in four strategic pillars of action – a clean environment, healthy food, care for employees and the community, and good corporate governance.

The focus of the Podravka Group on sustainable business resulted in a 6.2 percent reduction in energy consumption in 2022 compared to 2021. CO2 emissions were reduced by 9.2 percent, energy produced from renewable sources increased by 16.5 percent, and environmentally acceptable packaging accounted for 87.8 percent of the total packaging. In addition, due to the increase of our own agricultural production and the reduction of dependence on the import of agricultural raw materials, we have increased the areas under irrigation on three occasions. We currently own 156 ha of irrigated areas.

In the end, we can be truly satisfied that all our efforts have been recognized by all our stakeholders, and we are particularly pleased that the investment community has recognized them through the movement of the Podravka Inc. share price.

Although the stock indices CROBEX and CROBEX10 recorded a decline of 4.8 and 8.4 percent last year, respectively, the share price of Podravka Inc. it increased by 0.3 percent and on the last day of 2022 reached a value of HRK 634. The market capitalization amounted to HRK 4.4 billion, i.e. 0.5 percent more than the year before.



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The results achieved by the Group in 2022 allowed us to propose a dividend payment in the amount of EUR 2.65 per share, which is 53 percent more than last year. Taking into account the last market price of the Podravka share at the end of 2022, the proposed dividend amount implies a dividend yield of 3.1 percent, and is higher than last year's 2%. It should also be mentioned that the last share price on May 12, 2023 was 94 euros, which is 11.7 percent more than at the end of 2022. With the continuity of the dividend yield over the years, the Podravka Group confirms its focus on meeting the expectations set by shareholders.

Finally, on behalf of myself and the entire Management Board, I would like to thank all employees of the Podravka Group for their contribution to achieving results in the truly challenging year behind us. Another year full of uncertainty is ahead of us, but our strong position allows us to quickly adapt to changes, simultaneously realizing our strategic goals, which include major investments and the completion of important investments, as well as persistence in implementing our new Business Sustainability Strategy.

President of the Management Board of Podravka Inc.  
Martina Dalić, PhD

A handwritten signature in blue ink, appearing to read "Dalić".