



MANAGEMENT OF THE BOARD

Address of Martina Dalić, President of the Management Board, to shareholders of Podravka d.d at the General Meeting in Koprivnica on 14 June 2022

Dear Podravka shareholders,

The General Meeting is an important event in the life of a company, as this is the opportunity for the company owners to directly consider the company's results. For us at Podravka, it is also a special responsibility, considering the sheer number of shareholders, and given the specific nature of our largest shareholders, made up of state institutions and pension funds. At the Podravka General Meeting on 14 June 2022, 12,748 shareholders have the opportunity to participate, of whom 12,623 are natural persons and 125 are legal entities. Taking into account that not all shareholders were able to attend this Meeting, for any number of reasons, I would like in this way to address each and every one of you, to outline our business results, and the circumstances and challenges we have faced in our business.

Structure of the Podravka Group and 2022 performance

The Podravka Group includes two business segments: Food and Pharmaceuticals. The parent company Podravka d.d. holds 100 percent ownership over 18 daughter companies, including the Belupo pharmaceutical industry that operates in Croatia and 17 countries around the world. Shareholders of Podravka d.d. are therefore also shareholders and owners of this Croatian multinational corporation that through its daughter companies operates on 18 different markets, each with their own legal and legislative regime, from the United States to Australia. Podravka is one of the few Croatian companies, and certainly the only one in the food and pharmaceutical industry, to have such broad operations in such a large number of companies.

In 2021, the total Group revenues achieved HRK 4631.5 million, while net profits were HRK 309.2 million. In comparison to one year earlier, Group sales revenues grew by 2.8%, and profits by 24.2%. Looking specifically at each segment, the Food segment achieved 78% of revenues and 65.4% of profits, while the Pharmaceutical segment achieved 22% of revenues and 34.2% of profits.

These results were achieved in a year still marked by a strong battle against the Covid-19 pandemic and closure measures that varied in their intensity and duration from country to country. However, in all the countries in which we operate, these measures created certain limitations to operations and to consumer behaviour. Moreover, last year, as a result of the pandemic, we saw a rapid accumulation of economic imbalances that, particularly in the Food segment, were reflected in rising costs of raw materials, packaging, energy, transport and significant disruptions in the supply chain. These trends, even after last summer, started to generate strong pressures on the growing costs of production in the Food segment. Therefore, I would like to particularly emphasize that our good results last year in the Food segment were not the result of any increases to our retail prices. We succeeded in absorbing these pressures on the rising costs of production in 2021 primarily through rationalisation and cutting operational costs. The necessary corrections in our prices, only on certain markets, were made only at the end of the year when the inter-year increase of prices of most production inputs reached double-digit figures.



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Effects of the crisis caused by the war in Ukraine

After two years of handling the pandemic, at the end of February 2022 we were faced with a new and unexpected crisis. Nearby, on European soil, a war has broken out, bringing new economic shocks and new significant challenges. Today we are working and doing business in an environment of crisis, and its scope and reach still cannot be determined with any certainty. This has created uncertainty in what the future of our business will look like.

In 2021, the Group achieved 6.4% of its total sales revenues on the Russian and Ukrainian markets, with sales in the Food segment accounting for 2.3% of revenues, and Pharmaceuticals for 20.8% of revenues.

At this time, the crisis caused by the war in Ukraine on Group operations can be divided into two groups. The first is the direct impact caused by limited access to the Ukrainian and Russian markets and the imposed sanctions. The second group of effects, particularly significant in the Food segment, is the new high spikes in the prices of raw materials, energy, packaging and transport, which are continuing to grow on the already higher costs of production caused by the pandemic. The prices we have paid in procurement in recent months, and which are defining our production costs for the next 6 – 12 months are already between 5 and 30% higher than at the end of 2021, and between 32 and 75% higher than at this time last year. Further, the current cost of natural gas has increased four-fold over the same period last year, and we must ask ourselves what the coming months will bring.

A crisis with such far-reaching effects and uncertain consequences to the entire global economy requires agility, adaptability and a quick reaction to the changing market circumstances. I believe that our results to date have proven that we know how to deal with changes and difficult circumstances, and this gives us the confidence to persevere towards achieving our set goals, and in managing the new challenges brought on by these new circumstances in our surroundings.

Additionally, the many changes we have launched in recent years, including a strong investment cycle, personnel reinforcement, organisational changes, restructuring parts of the Group and many others are aimed at strengthening our potential for growth, to strengthen market positions and increase efficacy, while also increasing the Group's resilience and adaptability. The crisis caused by the war in Ukraine was both unexpected and unpredictable, but I believe that the changes we have made in the last year, and which we are working on every day, will contribute to our ability to adapt to any new circumstances. We will continue to invest maximum efforts to minimize numerous, strong, negative effects of this crisis on our operations. However, the disturbances occurring on the market, and which might worsen in the second half of this year, are such that the final results of this year will definitely not depend on us alone and will largely be a reflection of the external circumstances that we can in no way control.



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Implementation of the Group's Development Strategy for the period 2021-2025

We are implementing all the changes I am talking about in the context of the Group's Strategic Plan adopted last year, which defined the development strategy until 2025, and the three-year operational business plan. We have thus set up a new practice that allows us to view all our decisions in the medium term, while taking into account both profitability and business development. Integral part of our Strategy is investment of HRK 1.7 billion, aimed at increasing production efficiency, introducing new products, reducing negative impacts on the environment and protecting our production and workers from climate change. I am particularly pleased to inform you that the implementation of the investment plan is progressing as planned. Moreover, it is precisely the effective and timely implementation of our planned investment that makes it one of the important tools for dealing with the challenges posed by the crisis caused by the war in Ukraine.

In the Food segment, major investment projects such as new logistics centre, expansion of the Soup Factory and Vegeta, completion of the Kalnik plant modernization, digitalization of production, the first phase of solar power plant construction, and investment in new technology lines are progressing according to plan. The energy and IT renovation of the company's headquarters will be completed in July, as planned. In the coming period, in addition to the implementation of the already planned projects related to technological modernization, additional importance and priority will be given to projects related to increasing energy efficiency and self-sufficiency, renewable energy production and projects that increase security and availability of agricultural raw materials. Consequently, a decision was made to speed up the implementation of the second and third phases of construction of the solar power plant with the aim to have it finished next year, while most investments have already been completed that will triple irrigated agricultural areas in the next agricultural season. After we engaged in our own production of certain vegetable crops (peppers, cucumbers) for the first time last year, works have been or are about to be completed that will increase our own vegetable production by 2.5 times this year and thus enable a corresponding reduction in vegetable imports, especially peppers. I hope that the weather conditions will be more favourable than it has been for the past month.

In addition, in this season, we have contracted with our subcontractors twice the production of tomatoes in Istria, and activities are under way to acquire new land and subcontractors. Our goal is to fully cover the demand of our Food segment for tomatoes from domestic production, which will create conditions for investing in a new plant for the primary processing of tomatoes in Istria, for which the Supervisory Board has already given its consent.

Recognizing market trends, strengthening the loyalty of existing consumers, spreading the awareness and recognition of our brands, requires active and effective management of the entire portfolio, innovation and agility of all business programs that make up the Nutrition segment. Aligning our portfolio with the needs, tastes and desires of consumers and new living trends is a continuous task of all business programs. Over the past year, the product portfolio has been enriched by a series of production innovations based on naturalness and bio-origin, notably plant-based products, including meat substitutes, high-protein products, bio products and Vegeta, cereal-rich soups, fruit spreads with 100 percent fruit content, yeast-free sourdough bread and many others.



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The innovation and quality of the product portfolio must be balanced with the efficiency and profitability of business programs. Last year, therefore, much attention was paid to improving the profitability and efficiency of bakery, which is why the process of restructuring the subsidiary Žito d.o.o. was launched. Restructuring Žito includes merging bakeries in a smaller number of locations and focusing on production, technological modernization and full harmonization of business processes with the business processes of Podravka d.d. An integral part of the restructuring is a clear separation between sales and production, which is why Podravka d.o.o. Ljubljana took over all sales on the Slovenian market for the entire portfolio of the Food segment, including the bakery portfolio. So far, two production sites have been closed down, and this year we expect the first results in increasing the cost efficiency of Žito.

In the segment of Pharmaceuticals, the investment in the reconstruction of the weighing plant of the solid drugs factory has been completed, and then results of *lean management* have been fully implemented, which has contributed to reducing operating costs and we are expecting to see the full effects in the second half of this year. The product portfolio has been supplemented with new cardiovascular drugs, antidepressants, urological and dermatological drugs, and the range of over-the-counter drugs has been expanded.

Caring for employees and attracting talent

None of the results achieved or our ambitious plans can be achieved without the work, knowledge and dedication of our employees. That is why we are constantly committed to improving their working conditions and status. Last year we invested HRK 21 million in increasing workers salaries, followed by another HRK 35 million at the beginning of this year. In total, HRK more than 55 million was invested in increasing workers salaries, which in less than a year enabled an increase of workers salaries by 980 and 1150 kuna on the average, or between 18 and 28 percent, depending on their level of education and working conditions. I believe that we have clearly shown the firm commitment of the Management Board that employees must participate in the performance and success of the company.

In relation to working conditions, an investment of HRK 11 million in the air conditioning of factories has been completed, which will significantly improve the working conditions of a large number of our workers, especially during the summer months. At the end of last year, Podravka Group had 6,557 employees, which is 93 less than at the end of the previous year.

At the same time, Podravka Group is increasingly facing a lack of skilled labour, especially skilled workers, which is why foreign workers from Nepal and Tanzania have joined us in recent weeks. Therefore, attracting young professionals, empowering talent and strengthening the professional, innovative and creative potential of our employees all combine to make an important investment in the future and development of the entire Group. Just these days, a project has been launched to hire interns under the motto "Be a lid to our pot", which we will repeat regularly every year.

In the context of strengthening the total human capital available to the Podravka Group, I consider it very important to strengthen management capacities and expand the experience available to management. In the context of the reorganization that we prepared last year and formally implemented at the beginning of this year, Podravka Group has been joined by 13 new managers over the past year with respectable careers in Croatian and foreign companies.



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With them, we have strengthened our teams with new knowledge and experience, while continuing to invest in our own talents and the growth and development of our employees.

I consider the strengthening of management and professional sales teams to be a particularly important result of the reorganization and strengthening of management, because we have thus met one of the important preconditions for fulfilling our strategic commitment to a stronger presence on the Central and Western European markets. On the other hand, the new organization reduced the number of management levels, made room for the advancement of Podravka's best experts and managers, and accelerated and simplified decision-making processes. It is worth noting that the new reorganization has brought a better balance between men and women in managerial positions, so today 43% of directors are women.

Share price and dividend

All of us at Podravka, the Board, the management as well as our employees, are aware of the importance of our business and the results we achieve for the wider community. Our ownership structure is such that it makes all our fellow citizens co-owners - because apart from a large number of small shareholders, it is our citizens that are ultimately behind the state and pension funds as co-owners of Podravka. That makes our responsibility even greater.

The share price of Podravka d.d. increased by 30.3 percent last year and reached 632 kuna on the last day of 2021. The market capitalization on 31 December 2021 amounted to HRK 4,4 billion, or 30.6% more than the year before.

The results achieved by the Group last year enabled us to propose payment of a dividend of HRK 13 per share, which is 45 percent more than last year when HRK 9 per share was paid. The proposed dividend of HRK 13 is two percent of the share price at the end of last year, and thus Podravka has approached the standards of our industry in terms of dividend yield paid to shareholders. I believe that this step forward makes you, our shareholders, satisfied. We who work with the company are satisfied, too, because by creating the conditions for such a dividend yield we have made one more step forward in building a stable company that has the strength to pay its shareholders a reasonable dividend while maintaining a strong financial position open to business growth and investment. At this point, it should be mentioned that in 2021, the Group's indebtedness was further reduced. The ratio of net debt to EBITDA was reduced to 0.8, with strong and stable *cash flow* and further improvement in financing conditions. It is this strong financial position of the Group that guarantees the implementation of our ambitious investment plans and opens the space for business expansion.

After the outbreak of the war in Ukraine, the price of Podravka's shares followed the overall correction of stock markets, so last week it closed at 600 kuna, which is 5.3 percent less than at the end of last year. However, it should be clearly emphasized that the current share price or its movement over a short period must not be what guides us in doing business and working. What does and should guide us is creating long-term value for our shareholders, other stakeholders and the community at large. Everything I said we have been or are doing and planning to do is in line with that.

On behalf of the new Management Board, which started its new five-year term in February, I would like to thank all Podravka Group employees for their dedicated commitment and quality cooperation, the Supervisory Board for its support and you shareholders for the trust you have placed in us by investing in this company, supporting our ambitions and visions.



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Although this year is not how we wished it would be, and although it is marked by new instabilities, we at Podravka remain positive and determined to continue to improve our business and performance despite rather unfavourable circumstances. We are additionally inspired by the fact that this year is the 75th anniversary of the company. Everything that previous generations of our colleagues have achieved so far motivates us to continue building, on these foundations, an even more successful, even bigger and stronger Podravka, a Croatian multinational company. A company that is innovative and committed to the principles of sustainability, whose products will be favoured by many future generations of consumers not only in Croatia but also around the world.

President of the Management Board of Podravka d.d.
Martina Dalić, Ph.D.

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