

*Confidential*



Podravka

## Equity Acquisition Financing

15th November 2006



*This proposal was prepared exclusively for the benefit and internal use of the addressee, and does not carry any right of publication or disclosure other than to the Company. Neither this report nor any of its contents may be used for any other purpose without the prior written consent of Merrill Lynch & Co., Inc. ("Merrill Lynch").*

*The information in this proposal reflects prevailing conditions and our judgement as of this date, all of which are accordingly subject to change. In preparing this proposal, we have relied upon and assumed, without independent verification, the accuracy and completeness of all information available from public sources or which was provided to us by the Company or which was otherwise reviewed by us*

**Mr. Saša Romac and Mr. Zdravko Šestak**  
**Management Board**

Podravka

Ante Starcevića 32, 48000 Koprivnica

Croatia

Dear Sirs,

It is our understanding that you are seeking to raise up to EUR 70 million financing with a 3 year tenor for equity acquisition financing purposes (the "Facility").

Merrill Lynch International ("MLI" and, together with its affiliates, "Merrill Lynch") would be interested in providing you with such a Facility, subject to the terms and conditions described in this letter and subject to agreeing with you mutually acceptable commercial terms ("Term Sheet"). This letter is not a legally binding commitment on the part of Merrill Lynch or any of its affiliates to arrange or underwrite the Facility or any other transaction and any such commitment shall be subject to the negotiation and execution of binding commitment documentation or a definitive financing agreement.

We have included details of our proposal and are happy to negotiate mutually acceptable terms. We have outlined terms below for a floating rate loan with equity upside in EUR.

**Conditions Precedent**

Our commitment and agreement hereunder are subject, among other things, to:

- (i) satisfactory legal and commercial due diligence;
- (ii) the preparation and execution of mutually acceptable financing documentation ("Financing Documents");
- (iii) necessary Merrill Lynch internal credit, legal, tax and compliance committee approvals;
- (iv) Borrower's compliance with the Term Sheet and this letter;
- (v) In the reasonable opinion of the MLI, the absence of (A) any material adverse change having occurred in any of the business or financial condition of Management Board, Podravka or any of its subsidiaries; (B) any circumstance, change or condition occurring after the date hereof in the equity market conditions generally that, in the reasonable opinion of the MLI, would affect the terms of the Facility; and (C) any material adverse change having occurred after the date hereof in the financial or political situation in Croatia;
- (vi) all written information signed by authorised signatories of Management Board furnished to MLI in connection with the Financing being material true and complete;
- (vii) No Event of Default, potential Event of Default or circumstances which, pursuant to the Term Sheet, may lead to an obligation to call for an early redemption under the terms of the Facility outstanding;
- (viii) Any necessary Croatian government approvals.

**Exclusivity**

- (i) Merrill Lynch’s engagement hereunder, and its right to act in respect of the Facility, is on an exclusive basis. Accordingly, during the term of this Letter Agreement, Podravka Management Board will not approach, initiate, solicit or enter into any discussions or negotiations with or mandate or appoint any bank or financial institution or other person or entity to arrange or participate in the Facility, including, without limitation, through the issuance, offering or sale of any securities or instruments substantially similar to the Facility to any third parties, in each case except through Merrill Lynch or its designated affiliates.
- (ii) Podravka Management Board represents that neither it nor any of its affiliates is a party to or is bound by any agreement (written or unwritten) with any person (other than Merrill Lynch) relating to the structuring, offer, issuance, sale, purchase or management of similar instruments to those contemplated in the Facility, the terms of which would in any manner limit the ability of Merrill Lynch International to (i) execute, deliver and perform its obligations under this letter agreement; or (ii) provide information and make all necessary disclosures in connection with the Facility.


We remain committed to providing you with the best possible terms despite the uncertain and volatile environment. We look forward to working with you on this financing structure.

The accompanying Appendix forms a part of this letter. Terms defined in this letter have the same meaning when used in the Appendix.

Please confirm your agreement to the foregoing by signing this letter.

Yours faithfully,

Merrill Lynch International

By:   
Makram Abboud  
Managing Director  
Merrill Lynch International  
Global Markets – Strategic Solutions Group

Countersigned for and on behalf of  
Podravka Management Board  
Saša Romac

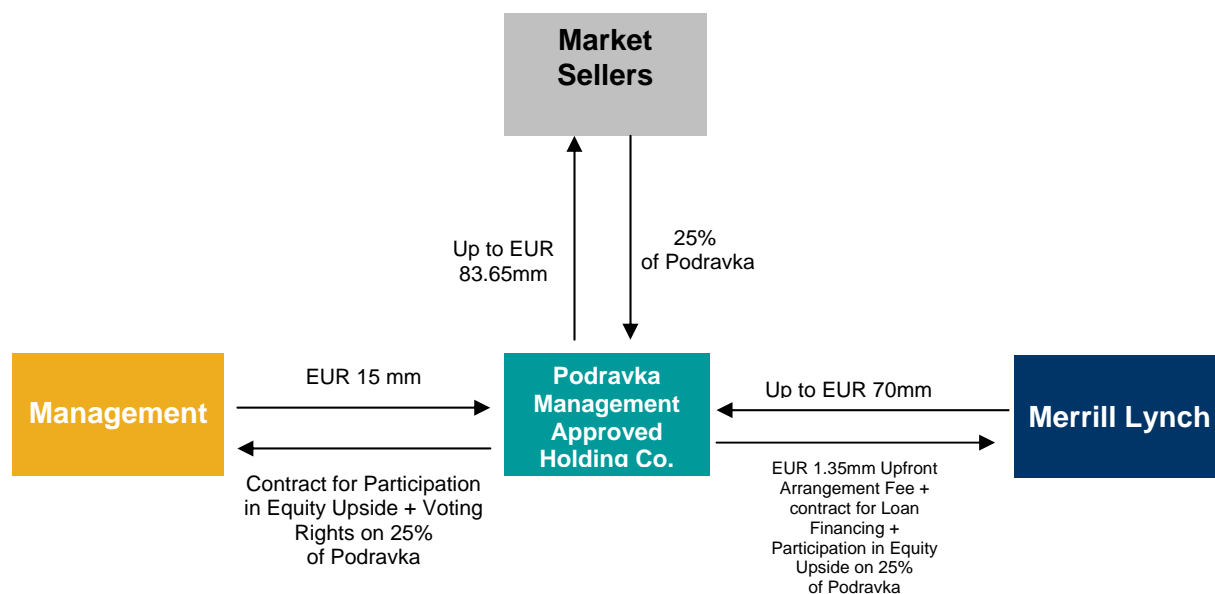
\_\_\_\_\_ Date: \_\_\_\_\_

Countersigned for and on behalf of  
Podravka Management Board  
Zdravko Šestak

\_\_\_\_\_ Date: \_\_\_\_\_

## Appendix 1 – Transaction Structure

### Podravka Share Financing Flowchart as of 15 November 2006



#### SUMMARY OF TRANSACTION:

The transaction would have the following terms in brief:

<b>Loan Amount</b>	Up to EUR [70,000,000] (EUR 68.65 mm share financing + EUR 1.35mm financing for upfront arrangement fee)
<b>Collateral Value</b>	EUR [ ]
<b>Calculation of Collateral Value</b>	Number of ordinary shares times market price per share divided by initial FX rate (e.g. 1,351,250 ordinary shares * 475 / 7.32 = EUR 87,700,000)
<b>Loan-To-Value</b>	[79%]
<b>Calculation of Loan to Value</b>	Loan Amount / Collateral Value
<b>Maturity</b>	Up to 3 years
<b>Underlying shares</b>	Podravka ordinary shares (Bloomberg PODRRA CZ HRK )
<b>No. shares</b>	Up to 1,351,250 ordinary shares of Podravka (Up to 24.99% of Podravka)
<b>Upfront Arrangement Fee</b>	2.00% on EUR 68.65mm
<b>Financing Spread above Libor</b>	4.00%
<b>Additional Equity Upside Payment</b>	25% of the Excess Return on Collateral upon financing exit
<b>Excess Return on Collateral</b>	Calculated as a function of the sale price of the Podravka share collateral less the Loan Amount, interest, spread above libor, transaction costs, and equity notional amount (EUR 15 million) from the Podravka Management (Borrower).
<b>Payment Currency</b>	EUR

- It is agreed that Merrill Lynch will finance additional 2.00% on EUR 68.65 million (EUR 1.35 million) for the Upfront arrangement fee to Merrill Lynch. Please note that we would need to obtain all necessary Merrill Lynch internal credit, legal, tax and committee approvals before proceeding with the transaction.

## Draft Terms and Conditions

### Terms of Loan

<b>Facility</b>	Up to EUR [70,000,000] (EUR 68.65 mm share financing + EUR 1.35mm financing for upfront arrangement fee). MLI will lend to Podravka Management Approved Holding Co the Loan Amount collateralized pursuant to the Collateral Terms
<b>Lender</b>	Merrill Lynch International ("MLI")
<b>Borrower</b>	[Podravka Management Approved Holding Co]
<b>Facility Agent</b>	MLI
<b>Arranger</b>	MLI
<b>Status</b>	The obligations of the Borrower in respect of the Facility shall rank senior to any other obligations of the Borrower
<b>Use of Proceeds</b>	Buy out up to 24.99% of Podravka (up to 1,351,250 ordinary shares of Podravka)
<b>Trade Date</b>	To Be defined
<b>Effective Date</b>	3 Business Days following the Trade Date
<b>Termination Date</b>	[3] years following the Trade Date
<b>Maturity Date</b>	3 Business Days following the Termination Date
<b>Contractual Currency</b>	EUR

### Interest Margin Payments

<b>Payment Dates</b>	Semi-annually in arrears
<b>Floating Rate</b>	6 Months EUR Libor
<b>Calculation Base</b>	Actual / 360
<b>Convention</b>	Modified Following
<b>Libor Fixings</b>	2 business days before Payment Dates
<b>Calculation Agent</b>	Merrill Lynch International
<b>Financing Spread above Libor</b>	4.00%
<b>Debt Service Reserve Account</b>	The Borrower shall deposit the equivalent of 2 semi-annual instalment of Cash Interest in a Debt Service Reserve Account (DSRA). Funds from this account shall be used to meet any shortfall in payment of interest and principal of the Facility.

## Equity Upside Payments

<b>Additional Equity Upside Payment</b>	25% of the Excess Return on Collateral upon Financing Exit
<b>Financing Exit After Maturity</b>	After Maturity of Facility, Lender has the right to sell the collateral. The Borrower has the first right of refusal to buy back the collateral.
<b>Excess Return on Collateral</b>	Calculated as a function of the sale price of the Podravka share collateral less the Loan Amount, interest, spread above libor, transaction costs, and equity notional amount (EUR 15 million) from the Podravka Management (Borrower).
<b>Additional Payment Currency</b>	EUR

## Collateral Terms

<b>Underlying Equity</b>	Podravka ordinary shares (Bloomberg PODRRA CZ HRK)
<b>Number of Shares</b>	Up to 1,351,250 ordinary shares of Podravka
<b>Initial Reference Price</b>	The average purchase price per share of the underlying collateral, converted to EUR at the Initial FX Rate
<b>Initial FX Rate</b>	The foreign exchange rate of EUR per 1 HRK as determined by the Calculation Agent, acting in good faith and in a commercially reasonable manner, based upon the hedging execution rate of EUR per 1 HRK on the Business Day immediately preceding Trade Date
<b>Permitted Collateral</b>	Shares of Underlying Equity; cash (EUR)
<b>Loan-To-Value</b>	[79%]

## Other Terms

<b>Up-Front Arrangement Fee</b>	2.00% on EUR 68.65mm
<b>Representations and Warranties</b>	<p>Customary for financings of this nature and others appropriate for this transaction as the parties shall agree (subject to carve-outs, to be agreed) including but not limited to:</p> <p>due constitution, capacity, due authority, legal validity and enforceability of the Loan Agreement, taxes paid, no immunity, non-conflict, no defaults, no insolvency, no litigation, accuracy of accounts and other information, no pre-existing security, share capital and no material adverse change.</p>
<b>Undertakings</b>	<p>Customary for financings of this nature and others appropriate for this transaction as the parties shall agree (subject to carve-outs, to be agreed) including but not limited to:</p> <p>payment of taxes, maintenance of authorisations; compliance with law, negative pledge, restriction on indebtedness, dividends, restriction on disposals, restriction on loans, restriction on acquisitions, restriction on payment of fees, no change of company status, and no mergers.</p> <p>Undertakings should apply to the Borrower as well as Podravka and its Material Subsidiaries.</p>
<b>Information Undertakings</b>	Customary for financings of this nature and others appropriate for this transaction as the parties shall agree. In relation to each of (i) the Borrower (ii) Podravka and (ii) each Material Subsidiary of Podravka.

<b>Financial Information</b>	<p>The Borrower must provide audited annual consolidated financial statements in accordance with IFRS not later than 150 days from the end of the relevant financial reporting year.</p> <p>The Borrower must provide unaudited quarterly financial statements in accordance with IFRS not later than 120 days following the end of the respective reporting period.</p> <p>The above statements apply for Podravka and its Material Subsidiaries.</p>
<b>Financial Covenants</b>	<p>Financial covenants applicable to Podravka and its Material Subsidiaries (“Passive Financial Covenants”) (level to be determined at a later stage subject to negotiation):</p> <ul style="list-style-type: none"> <li>• EBITDA / Net Interest Expense;</li> <li>• Net Debt / EBITDA;</li> <li>• Total Debt / Equity;</li> <li>• Any other covenants and undertakings as may be agreed with the Borrower.</li> </ul>
<b>Negative Pledge</b>	<p>The Borrower shall not create or permit to subsist, and shall procure that its subsidiaries shall not create or permit to subsist, any Security over any of their assets other than Permitted Security (as agreed by the Borrower and the Lender).</p>
<b>Events of Default</b>	<p>Customary for financings of this nature such as:</p> <p>with respect to the Borrower, Podravka and its Material Subsidiaries shall include, without limitation, as the parties shall agree:</p> <ul style="list-style-type: none"> <li>• Non-Payment</li> <li>• Breach of Passive Financial Covenants</li> <li>• Breach of Other Obligations</li> <li>• Misrepresentation</li> <li>• Cross-default</li> <li>• Insolvency</li> <li>• Insolvency proceedings</li> <li>• Appointment of receivers and managers</li> <li>• Creditors' process</li> <li>• Analogous proceedings</li> <li>• Cessation of business</li> <li>• Unlawfulness</li> <li>• Ownership of the Borrower</li> <li>• Material adverse change</li> </ul> <p>Upon the occurrence of an Event of Default, the Lender will be entitled to accelerate the Facility and enforce the Collateral .</p>
<b>Conditions Precedent</b>	<p>Including, but not limited to (i) receipt of all internal and external approvals, (ii) satisfactory due diligence, (ii) satisfactory legal documentation, (iii) satisfactory legal opinions, (iv) no material adverse change in the financial condition or business of the Borrower, Podravka or its material subsidiaries or in market conditions generally, (v) no market disruption, (vi) no Event of Default or potential Event of Default, (vii) the Borrower’s representations and warranties made in the Finance Documents being true in all material respects and the Borrower’s compliance with all of its material (in the opinion of the Facility Agent) obligations under any of the Finance Documents, the utilisation request being in the form and substance set out in the facility agreement.</p>

## Disclaimer

Merrill Lynch prohibits (a) employees from, directly or indirectly, offering a favourable research rating or specific price target, or offering to change such rating or price target, as consideration or inducement for the receipt of business or for compensation, and (b) Research Analysts from being compensated for involvement in investment banking transactions except to the extent that such participation is intended to benefit investor clients.

This proposal is confidential, for your private use only, and may not be shared with others (other than your advisors) without Merrill Lynch's written permission, except that you (and each of your employees, representatives or other agents) may disclose to any and all persons, without limitation of any kind, the tax treatment and tax structure of the proposal and all materials of any kind (including opinions or other tax analyses) that are provided to you relating to such tax treatment and tax structure. For purposes of the preceding sentence, tax refers to U.S. federal and state tax. This proposal is for discussion purposes only. Merrill Lynch is not an expert on, and does not render opinions regarding, legal, accounting, regulatory or tax matters. You should consult with your advisors concerning these matters before undertaking the proposed transaction.