

Project Aisle: Entity Priority Model Guidebook

16 February 2018

1. Purpose

The purpose of the entity priority model (“EPM”) is to determine stakeholder claims and respective recoveries at each entity in the Agrokor group (“Group”) under Extraordinary Administration proceedings (“EA”) (the “EA Group”). The EPM identifies each entity’s distributable value and the legal rights, ranking and characteristics of each of its claims. Claim recoveries are, in turn, used to determine the claim’s allocation of new recovery instruments, or value of reinstated debt, for 100% of the value of the Group.

2. Structure

The Group comprises 160 entities of which 81 are domiciled in Croatia and 77 are subject to EA. The remaining entities are domiciled in jurisdictions such as Bosnia, Serbia and Slovenia, among others. While the focus of the EPM is to determine claim recoveries in respect of entities subject to EA, the value of Group entities outside EA is essential to determine the distributable value of their parent entities within EA. Agrokor d.d. is the ultimate parent of all entities analysed in the EPM.

3. Limitations

3.1 Reliance

The EPM relies upon information and analyses provided by advisors to the Group and by Management. This information includes unaudited figures and forward looking estimates. The EPM also relies on the legal opinion of Bogdanović, Dolički & Partneri (“BDP”) when regarding Croatian law.

3.2 Litigation

The EPM does not account for any ongoing litigation which may impact distributable value, claim amounts or legal agreements.

3.3 Timing

The EPM uses valuations and appraisals, and calculates recoveries, as at a single point in time based on the best available information prior to settlement. The EPM assumes all enforcement occurs concurrently.

3.4 Information

Valuations and asset appraisals are limited to entities where reliable and adequate information is available. The Group and its advisors have spent months amalgamating and analysing data, but in certain cases information is too limited to properly assess value.

3.5 Claims

The EPM determines recoveries from debtors within EA for post-petition claims (e.g. claims of the “Super Priority Facility Term Agreement” or “SPFA” lenders), court-determined pre-petition claims and equity holders (including minority shareholders).

However, Croatian bankruptcy law as well as international practice requires that the extraordinary commissioner reserve in full for recoveries of amounts of claims that have been challenged (i.e. that have not been determined by the court). This includes claims that have been challenged by the extraordinary commissioner and claims that have been challenged by other creditors. The recoveries of these disputed amounts will be provided for in full in the EPM unless and until the claim has been finally determined (including the resolution of any appeals). To the extent that a claim is rejected following the litigation process, the recovery reserved for that claim will be applied in satisfaction of other claims in accordance with the EPM.

4. Scenarios

4.1 Scenario Reasoning

The EPM will consider two scenarios: (1) going-concern; and (2) liquidation of the Group. The going-concern scenario will form the basis of the recoveries and allocations analysis for the settlement agreement. Croatian law and international practice requires that no creditor should receive less than they would in the event of liquidation. As such, the liquidation scenario is used to demonstrate that this requirement will have been met and serve to demonstrate both the financial benefits of the proposed settlement but also the substantial loss of value on liquidation as the only alternative to a going-concern settlement agreement.

In both the going-concern and liquidation scenarios, the treatment of claims is based on the legal rights, ranking and characteristics of claims in the event of liquidation in relation to each individual entity.

4.2 Going-concern Scenario

In a going-concern scenario, it is assumed that most entities of the Group will continue to operate indefinitely. This assumption is key for the valuation methodologies used to determine distributable value (see 5. *Distributable Value*).

However, it is important to note that the Group **cannot continue to operate and expect to meet its claims in full in its current form**. As such, the going-concern scenario is only relevant as an approach to valuation in determining the allocation of distributable value and therefore stakeholder recoveries.

4.3 Liquidation Scenario

In a liquidation scenario, distributable value will be lower than in a going-concern scenario. This is due to the high likelihood of ceasing business operations and/or a forced sale at a discount of either business units or, more likely in liquidation, their assets, which will generally realise a significantly lower value (and therefore recovery) than if the business would continue to operate as a going-concern. Furthermore, a liquidation bankruptcy process would give rise to additional court and administrative costs and a likely delayed sale process, thereby further lowering the distributable value.

In the event of liquidation, the SPFA's security and seniority will extend to encumbered assets not expressly currently encumbered by the SPFA (see 7.2 *SPFA Claims*). However, any additional SPFA recovery under these circumstances only impacts EPM recoveries and allocation to other claims in the event that the distributable value available to SPFA claims (before any such additional SPFA recovery) is less than the SPFA claim amount outstanding.

5. Distributable Value

Distributable value is determined on the basis of the following components, in aggregate:

5.1 Enterprise Value

Enterprise value (“EV”) is the value of the operating business within a legal entity. In a going-concern scenario, this value is assessed using a variety of valuation methods including trading multiples, precedent transactions and discounted cash flow analysis. A thorough valuation analysis will be made available to the advisors of the creditor committee (“CC”) who have signed appropriate confidentiality agreements, the CC and ultimately to all claim holders.

In a liquidation scenario, the EV is discounted to reflect a lower realisable value due to a forced sale.

5.2 Excess Cash

Excess cash is cash available beyond what is needed for working capital purposes (which include post-petition liabilities from ordinary business during EA). Given there are no revolving credit facilities in place, it is assumed that there is no excess cash beyond amounts available to pay estate claims (see 7.1 Estate Claims).

In a liquidation scenario, it is also assumed that excess cash is also nil as an offset to post-petition priority net working capital liabilities.

5.3 Non-Core Assets

Similar to excess cash, an entity may have other assets (e.g. property, equipment, etc.) which are not part of the operating business or are not needed for working capital. As such, these non-core assets have value which is not captured in EV but is included in the EPM and would therefore increase distributable value. The valuation of non-core assets in a going-concern scenario is being carried out by independent third-party appraisers. In a liquidation scenario, the value of these assets is adjusted using an extreme discount to reflect a significantly lower realisable value comparable with a forced sale.

5.4 Intercompany Receivables

Intercompany receivables are amounts owed to an entity resulting from that entity’s claims against another entity in the Group. These are treated the same as third-party claims and valuation is based on implied recoveries as per the EPM (see 8.1 Pre-Petition Intercompany Claims).

5.5 Equity Value of Subsidiaries

The equity value of an entity’s subsidiaries (both within and outside EA) contributes to its distributable value. As outlined below, equity has the lowest priority in the EPM waterfall. If there is distributable value available after all of an entity’s claims are satisfied, the residual value flows proportionally to equity holders (including minority shareholders). If an equity holder is another Group entity, the value of its equity holdings are an asset which will add to that entity’s distributable value.

The equity value of subsidiaries outside EA are considered on the basis of their EV less third-party debt, plus non-core assets and intercompany receivables (that could represent additional value) and less intercompany payables and guarantees of impaired guarantee claims debtors within EA (that could represent additional liabilities). Intercompany receivables and payables will be assumed to offset each other when considered on a consolidated basis on the basis that subsidiaries outside EA will continue to trade. In a few exceptional cases, entities outside EA have provided guarantees for claims against entities within EA. These guarantees will be allocated a recovery value equal to the higher of the recovery on the guarantee in a liquidation scenario and the value of the equity of that guarantor outside of EA (up to the amount guaranteed).

5.6 Collateralised Core Assets

Distributable value will be reduced by core assets which are held as collateral against secured claims (which are considered separately by the EPM waterfall (see 6.1 *Pre-Petition Secured Claims*)). Similar to non-core assets, the valuation of collateralised core assets in a going-concern scenario is being carried out by independent third-party appraisers. In a liquidation scenario, the value of these assets is discounted to reflect a lower realisable value due to a forced sale.

The value of these assets is excluded from EV as the assets are allocated to satisfy these secured claims first. If the value of collateral is in excess of the secured amount, and if that collateral consists of core assets across multiple entities, value will be withheld from each entity's distributable value in proportion to the overall value of collateral package.

6. Claims Outside EPM Waterfall

6.1 *Pre-Petition Secured Claims*

Secured claims are claims with separate satisfaction right ("SSR") which are collateralised with a pledge or a fiduciary transfer of title (for security) over physical assets (land, equipment, etc.), shares and rights (receivables, etc.). A claim collateralised by a promissory note is considered a guaranteed claim and not a secured claim (see 7.4 *Pre-Petition Guaranteed Claims*). Secured claims are considered separately from the EPM waterfall based on each claim's SSR which allows for its respective creditor to attach and collect the value of the collateral separately, and in priority to, other creditors' claims. In certain cases, the amount of a secured claim differs from the amount of its SSR. In either case, the secured amount is the lesser of the claim amount and the SSR.

The satisfaction of a secured amount is determined based on the lesser of the SSR and the value of the claim's collateral (see 5.6 *Collateralised Core Assets*). If the SSR or the value of the claim's collateral is less than the secured claim, the difference is considered a deficiency claim against the debtor entity. This deficiency claim is treated as an unsecured claim ranking *pari passu* to other unsecured claims in the EPM waterfall for that particular entity (see 7.3 *Pre-Petition Unsecured Claims*). If the secured claim is also guaranteed, any deficiency claim will also be considered as unsecured claim in the waterfalls of the guarantor entities (see 7.4 *Pre-Petition Guaranteed Claims*).

7. Claims Inside EPM Waterfall

7.1 *Estate Claims*

Estate claims include unpaid employee claims (of which none have been registered) and costs relating to the court, creditor committees, advisors and restructuring process (including applicable VAT).

Estate claims rank in priority to all other claims of the Group. However, it is contemplated that all such costs would be paid in cash by the debtor (in going-concern by the EA Group). Therefore, while estate claims are part of the EPM waterfall, they are covered in full by cash at the debtors (in going-concern by the EA Group) and therefore have been omitted from the calculations.

7.2 *SPFA Claims*

SPFA claims are based on amounts outstanding under the SPFA. The SPFA debtor is Agrokor d.d. which subsequently on-lent amounts to certain of its subsidiaries. The SPFA lenders have security over these on-lent amounts. Furthermore, the SPFA is secured by assets which were not encumbered at the time the SPFA was executed. However, in a bankruptcy process, the SPFA's security extends to all assets of the Group in priority over other liens. The SPFA is also guaranteed by a number of the Group entities ("SPFA Guarantors"). For expediency and

recovery maximisation (in going-concern) it is assumed that the SPFA will seek recovery from its priority over on-lent amounts, Agrokor d.d. and SPFA guarantors first and, only unless not fully satisfied, secondly from security provided over the tangible and intangible assets of the EA Group.

Distributable value is first made available to SPFA claims which are satisfied in the following order:

1. Security over on-lent amounts

The SPFA will seek to recover from its security over amounts funded from SPFA proceeds and lent from Agrokor d.d. to its subsidiaries. These amounts are recovered from the distributable value of each respective borrower.

2. Distributable value of Agrokor d.d. and SPFA Guarantors

If the SPFA claims remain unsatisfied by priority recovery from on-lent amounts, they will recover the difference from Agrokor d.d. and the SPFA Guarantors. The same amount (being the amount not yet satisfied by recovery from on-lent amounts) is charged against each of Agrokor d.d. and the SPFA Guarantors in priority to any unsecured pre-petition claims.

The SPFA Guarantors have recourse back to Agrokor d.d. for any amounts recovered under the guarantees. While this recourse cannot impact the principal amount claimed, in the event of an excess recovery of the claim, this excess recovery would be returned to the guarantors in the same proportion by which it was recovered from each guarantor. For example, if the difference sought was €100m from three SPFA Guarantors which resulted in a €160m recovery from those entities (€100 from one SPFA Guarantor, €60 from another and €0 from the third), the €60 excess would be redistributed to each SPFA Guarantor as follows: €37.5 (62.5%) to the first, €22.5 (37.5%) to the second and nothing to the third. As a result, SPFA Guarantors that can contribute more (i.e. those which are more distributable value and with fewer encumbrances) bear a larger burden.

Provided the SPFA lenders over-recover through their guarantees, no SPFA Guarantor has its distributable value fall to zero as a result of recoveries from the SPFA guarantees.

The ranking stated above is based on the following principles:

- The SPFA lenders have security over on-lent amounts which are clearly defined and can be recovered in a timely manner;
- The SPFA is secured by certain other assets and in a going-concern scenario the value of these assets has not been separately considered in the EPM as recoveries from other sources are expected to be sufficient to satisfy claims under the SPFA;
- Agrokor d.d. and the SPFA Guarantors are jointly and severally liable. In the event of a recovery shortfall from the on-lent priority intercompany loans, creditors would simultaneously seek recovery from Agrokor d.d. and the SPFA guarantors.

7.3 Pre-Petition Unsecured Claims

Unsecured claims include claims which have no collateral, as well as amounts of secured claims not fully satisfied by their collateral (deficiency claims). These amounts rank *pari passu* to each other regardless of the type of instrument (e.g. loan, trade claim, bill of exchange, etc.) or type of creditor (e.g. financial institution, trade creditors, etc.).

7.4 Pre-Petition Guaranteed Claims

Guaranteed claims (i.e. co-debtorship) are claims which are guaranteed by entities other than the debtor. If a guarantee claim is secured, the EPM applies recoveries from the collateral to the claim first (see 6.1 *Pre-Petition Secured Claims*). Any deficiency will be treated as an unsecured claim against each of the guarantors.

Similar to the SPFA, debtors and guarantors are jointly and severally liable for guaranteed claims. As such, the EPM will seek to recover the same amount from each of the debtor and the guarantors. If the guaranteed claim over-recovers as a result, the excess amount is redistributed back to each of the guarantors (but not the debtor) in the same proportion by which it was recovered. Other than in respect of the SPFA guarantees, excess recovery of a guaranteed claim (and redistribution of the excess to the guarantors) occurs in a few exceptional cases.

7.5 Pre-Petition Claims Secured with Promissory Notes

Certain claims are secured with promissory notes which are effectively guarantees (i.e. co-debtorship) as these promissory notes rank *pari passu* with the initial claim. For most of these claims, the debtor of the claim is the same as the debtor of the promissory note, in which case the effect is having one and the same claim on the entity. However, in certain cases, the debtor(s) of the promissory note(s) differ from that of the principle claim. These are treated the same as guaranteed claims in that the debtor(s) of the promissory note(s) are akin to guarantors (and the claim is equivalent to a guaranteed claim).

7.6 Pre-Petition Distressed Shareholder Loans

Distressed shareholder loans are loans extended by another group company (parent or sister) when that borrowing subsidiary should have been perceived to be in a state of financial distress with a reduced expectation that these intercompany loans would ever be fully repaid. In a Croatian bankruptcy procedure, a distressed shareholder loan is, therefore, considered subordinated to other unsecured claims. The court however has not recognised any intercompany claims as distressed shareholder loans and therefore no intercompany claim has been subordinated in the EPM.

7.7 Equity Value

Equity value consists of the remaining distributable value after all claims are satisfied in full. The value of the equity can then be used to determine the value of share pledges held as collateral by certain secured claims, or the value attributed to the parent(s), including minority shareholders (if any).

8. Other Claim Considerations

8.1 Pre-Petition Intercompany Claims

Intercompany claims are amounts lent from one entity of the Group to another. These claims are treated no differently to third-party claims when determining recoveries. Most intercompany claims are unsecured and *pari passu* with other unsecured claims.

8.2 Pre-Petition Contingent Liabilities

Certain pre-petition liabilities are contingent on certain events such as the outcome of lease negotiations. A reserve will be determined for these amounts based on the maximum liability and likelihood of it materialising.

8.3 Pre-Petition Guarantee Claim from Outside EA

Certain claims against debtors outside EA are guaranteed by entities within EA. Certain of these amounts have been submitted and recognised as part of the claims filing process. However, as all entities outside EA are expected to continue to trade after the settlement, no value from guarantors in EA are attributed to the guarantee claims.

9. Recovery and Allocation

9.1 Determination of Treatment

The EPM determines recoveries of claims against entities with EA. However, whether a claim will be novated unimpaired to the new structure or, when impaired, receives a new recovery instrument is dependent upon whether or not the debtor is solvent and whether or not the claim is secured (see *Appendix B*).

9.2 Solvent EA Entities

If an EA entity is solvent, it will be transferred to the new structure through a share transfer. All assets and claims (secured and unsecured) will remain with the solvent entity and creditors' claims will be settled in the normal course of business in due course.

9.3 Insolvent EA Entities

If an EA entity is insolvent, its assets and post-petition liabilities will be transferred to the new structure through an asset transfer into a new entity.

If the insolvent EA entity owes secured claims, these claims would each be moved into the new structure at a principal value equal to the lesser of the SSR and the value of the claim's collateral. The deficiency, if any, is considered an unsecured claim and is treated as such (see *7.3 Pre-Petition Unsecured Claims*). If the secured claim is owed by the same entity that has title over the collateral, both the transferred amount of the secured claim and its collateral will be transferred to the same new entity. However, if the title to the collateral is held by an entity that is different from the debtor, then the secured claim will instead be transferred to Croatian Holdco.

All unsecured claims in the insolvent entity will be impaired (exceptionally however, claims are fully recovered through guarantees from other entities). Unsecured claims in these entities will not exist in the new structure. Instead, these claims will receive a recovery entitlement in the new Group proportional to the claim's recovered value relative to the total recovery of all unsecured claims against insolvent entities in EA. For example, assume the Group has a distributable value of €100 and €75 is distributed to a combination of the SPFA claims, secured claims and claims within solvent entities. This would suggest that €25 is distributed to claims within insolvent entities. If one of those claims has an implied recovery of €5, it would be allocated 20% of the new recovery instruments (i.e. directly proportionate to its implied recovery in that entity).

10. Other Recovery Considerations

10.1 Settlements of Pre-Petition Claims at Par

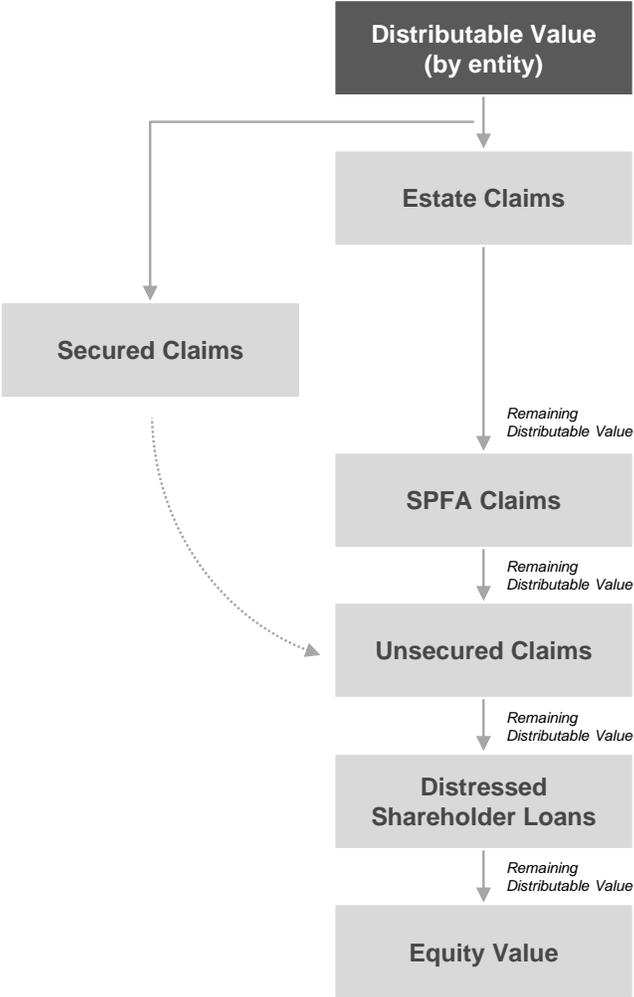
The EA law permits the payment of certain pre-petition claims. Accordingly, a number of creditors received consideration in full or partial settlement of their pre-petition claims. Distributions of consideration include amounts refinanced at par through the SPFA and payments to creditors which were necessary for the reduction of systemic risk, continuation of business activities, preservation of assets or in connection with claims from ordinary operating activities.

Under the EA law, these payments are treated as payments in satisfaction of an equivalent amount of the claim and not as advances that can be recovered from creditors even when that amount exceeds the value of the recovery of creditors with a claim of the same priority against the same entity. Therefore, all consideration distributed accordingly to pre-petition claims will be considered settlements at par and any remaining balance of the pre-petition claim will be treated in the same way as all other claims. For example, a pre-petition claim of €100m may have had €60m settled at par and therefore €40m remaining. If *pari passu* creditors of the same debtor are entitled to receive a recovery of 60%, the claim would recover 60% on its remaining €40m.

10.2 Solvent Entities Holding Intercompany Claims Against Insolvent Entities

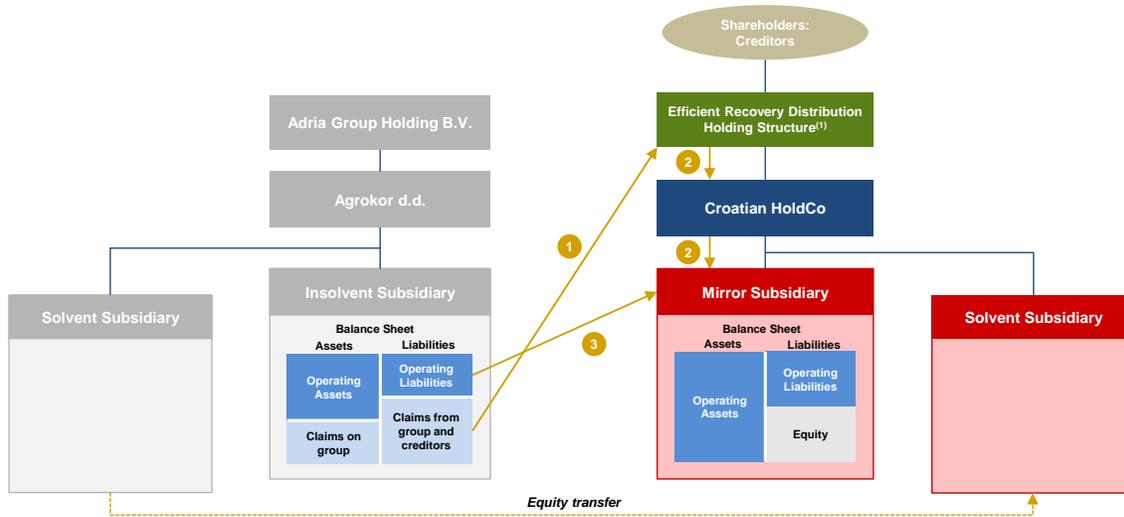
In certain situations, solvent entities will have intercompany receivables arising from intercompany claims against entities within EA. If the debtor is solvent, the intercompany receivables/claims will exist in the new structure (and offset each other on a consolidated basis). However, if the debtor is insolvent, intercompany receivables/claims are treated as third-party claims and the creditor would be entitled to an allocation of new recovery entitlements. In these circumstances, the entity would receive its recovery on the pre-petition intercompany claim in the form of a new intercompany loan to Croatian Holdco at a principal amount equal to the value of the recovery entitlement with a neutral effect on the distributable value of the intercompany lender.

Appendix A: EPM Waterfall



Note: Distressed Shareholder Loans are not applicable due to the operation of the Court's January decision on determined claims (court has not qualified any intercompany claims as distressed shareholder loans)

Appendix B: Transaction and Pro Forma Structure



Asset Transfer Summary Steps	<p>1 All registered claims from creditors to be transferred to the new structure in exchange for new instruments or an entitlement to these</p> <p>2 Holding structure to transfer claims downwards to Croatian HoldCo⁽¹⁾ and on to subsidiaries</p> <p>3 Mirror subsidiaries to use claims to purchase operating assets and liabilities from insolvent subsidiaries (and, separately, shares of solvent subsidiaries and novated unimpaired claims)</p>
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