

**STATE IN AGROKOR AT THE POINT OF TRANSFER OF DUTIES OF
THE EXTRAORDINARY ADMINISTRATION**

ZAGREB, 5 MARCH 2018

1. Introduction

Due to alarming conditions in Agrokor d.d. ex company chairman Ivica Todorić along with all the other Members of the Board submitted to the Commercial Court on April 7th, 2017 a request for the activation of the Act on the Extraordinary Administration Procedure in Companies of Systemic Importance to the Republic of Croatia.

Based on this request the Commercial Court opened the procedure of Extraordinary Administration on the 10th of April 2017 and appointed Ante Ramljak as Extraordinary Commissioner for Agrokor. Ante Ramljak resigned on the 20th of February 2018.

The Commercial Court in Zagreb decided on the 28th of February according to the proposal from the Government of Croatia to relieve Ante Ramljak of duty as Extraordinary Commissioner for Agrokor and appointed Fabris Peruško as his successor. Accordingly the Commercial Court appointed Irena Weber as his deputy.

The transfer of duties was done in the afternoon of 28th of February.

This report is a short overview of economic and financial conditions as they were on the 28th of February 2018 and facts that are important to reach the settlement as an absolute priority of the new Commissioner and his Deputy. Before the overview, this report briefly looks at the opening of the Extraordinary Administration procedure and the main events over the past ten months.

2. Overview of the key events in the period from 10th April 2017 until 28th February 2018

In order to fully understand the conditions that were present in Agrokor at the time of transfer of duties between the former and present administration it is important to acknowledge the state in which the company was at the moment of opening of the procedure as well as the key events that took place and led to the current condition that the new administration found when it took over the procedure. Each and every of the events here described directly influenced the economy and the financial condition of Agrokor d.d. as well as the main challenges the Extraordinary Administration was facing in the process of reaching the settlement.

Initiation of the Extraordinary Administration procedure and the systemic importance of Agrokor d.d.

The procedure of Extraordinary Administration was opened on the 10th of April and the transfer of duties between the previous Board and the Extraordinary Commissioner was done that day in the afternoon. Thanks to the application of the Law on Extraordinary Administration Proceedings in Companies of Systemic Importance to the Republic of Croatia, during the day of 10th of April all previously blocked accounts were unblocked.

The blockade of accounts of Agrokor d.d. and its main companies which in only ten days reached the amount of three billion HRK, undoubtedly shows that the entire system of Agrokor d.d. before the opening of the Extraordinary Administration Procedure was faced with the likelihood of insolvency proceedings. Uncontrolled insolvency proceedings of the entire Agrokor d.d. system at a point of completely empty accounts, stoppage of production and supply and empty store shelves, when the preparations for the tourist season should have been in full swing would mean the loss of 28.000 jobs in Agrokor companies across Croatia. That makes 2% of the entire work force in the Republic of Croatia but the number is way higher when the families of the workers are taken into account. Moreover, another 28.000 workers were endangered in Agrokor companies outside of Croatia. Due to Agrokor's dominant position in retail and distribution in general, an insolvency procedure of Agrokor d.d. would have endangered a high number of Croatian companies in different economic sectors. For example, more than 2,300 Konzum suppliers employ 150,000 people.

The fact that stoppage of business activities means also a drop in revenues of the Croatian state budget, and with a sudden stop of business activities of the Agrokor system the state budget would face an approximate annual loss of revenue between 2,5 and 3 billion HRK which accounts for around 3,5 to 4 % of entire tax revenues in 2016. The entire amount of all reported claims of Agrokor creditors comes to HRK 58 billion, which basically makes 16% of Croatian GDP in 2016.

Due to the lack of quality communication, the obvious serious problems with all the stakeholders and evident problems with timely payments of accounts payable towards suppliers and creditors in the pre-petition period, the trust between suppliers, creditors and partners at the point of opening the Extraordinary Administration Procedure was seriously damaged. The consequences of this situation were reductions or, to be more specific, most often the complete cessation of deliveries of goods and services which caused many problems and interfered with normal day-to-day operations of Agrokor companies. In the first week of work of the Extraordinary Administration it was noted that the activities in several production companies had stopped and the supply of retail companies was seriously hampered, leaving them completely without some products. Moreover, the situation with Agrokor payroll payments was hampered. Although salaries and wages were being paid, delays had started already in December of 2016. On 10th April 2017 the Extraordinary Administration had found empty accounts of the blocked companies, while faced with the legal obligation to pay monthly salaries and wages to workers by 15th April. The Extraordinary Administration was able to secure HRK 200 million for the payrolls, which were paid timely.

In only four days a EUR 80 million loan facility was signed with four local banks, making it possible for the Extraordinary Administration to secure the urgent supply of the retail chain before the Easter weekend. Thus the first conditions for the recovery of business operations were met at the very last moment.

The first liability report made in April 2017 by the advisers to the Extraordinary Administration found that as at 31st March, 2017 the Company's total liabilities were HRK 40.4 billion.

New financing agreed in the amount of EUR 1.06 billion

Out of the major events that followed, the one to be singled out is the reaching of the agreement in June last year for a new financing in the amount of EUR 480 million or 530 million, respectively, when taking into account the commercial loan for suppliers under the same conditions that are available for financial institutions. The complete credit arrangement therefore amounts to EUR 1.06 billion, out of which EUR 530 million is new debt and the rest is intended for the refinancing of old debt. If it wasn't for this financing, the preservation of Agrokor d.d. would not have been possible nor would the preconditions have been met for the restructuring of the company, reaching a settlement and thus its viability in the long term.

Presentation of audited financial statements for 2016

On 9th October 2017 the new audited financial statements of Agrokor d.d. and the consolidated financial statements of the Agrokor group for the year 2016 were published. The results of the audited statements entailed significant adjustments to Agrokor's financial statements including the lowering of the total equity of the Agrokor group in the period from 31st December 2014 to 31st December 2016 in the amount of HRK 21.7 billion. The loss in 2016 amounted to HRK 11.2 billion while the restated loss for 2015 was HRK 3.6 billion compared to the HRK 1.2 billion profit stated by the former Board for 2015.

The key accounting irregularities noted in the review of the financial statements for 2016 were:

- non-disclosure of HRK 3.9 billion of liabilities and HRK 2.3 billion of operating and financial expenses in the period from 2010 to 2015 and
- HRK 2.1 billion mis-stated as cash and cash equivalents

The auditors' findings also showed the improper use of the equity method at Agrokor d.d. in the period from 2006 to 2011 which resulted in a value adjustment in the amount of HRK 3.5 billion, or overvalued revenues in the previous years. The audited financial statements for 2016 for the key individual companies of the Agrokor Group in Croatia are publicly available on the Agrokor website.

Viability plans of Agrokor companies focus on raising operating profits

In late October 2017 viability plans were presented for five business segments of the Agrokor Group which include Agrokor d.d., Retail, Food, Agriculture and Agrokor Portfolio Holdings. The viability plan is a result of the significant efforts exerted to improve operating results over the past months and provides a stable platform for future business and for the settlement. The plan primarily focuses on improving operating profits (EBITDA), stabilization of business, securing enough liquidity and regaining the market confidence. According to the viability plans, in 2016 the Agrokor Group generated revenues in excess of EUR 6 billion with significant consolidation effects across the Agrokor Group and EBITDA of almost EUR 230 million in the core businesses. Altogether, the markets in which Agrokor operates have growth projections and generally very positive economics in the area of supply. For the core business activities a drop of 5% is expected, while EBITDA is expected to double between 2016 and 2021, with the amount to be achieved by the end of this period exceeding EUR 400 million. The core

businesses are expected to generate more than EUR 1.2 bn of free cash flow over the course of the next four years, by 2021.

Commercial Court in Zagreb passes Ruling on Determined and Contested Claims

In November last year the Extraordinary Administration made a submission to the Commercial Court in Zagreb with tables containing all claims filed. These show that the structure of claims to enter the settlement with is extremely complex – around 5,700 local Croatian and international creditors filed around 12,000 claims with various payment orders, as well as legal and factual circumstances. The value of claims recognized/verified by the Extraordinary Administration amounts to around HRK 41.5bn, while the total value of contested claims is around HRK 16.5bn.

On January 15, 2018 the Commercial Court in Zagreb passed a ruling on determined and contested claims of Agrokor creditors, which was published on the Court's e-bulletin board. The Ruling states that, further to the claims examined and verified by the Extraordinary Commissioner in the amount of HRK 41.45bn and contested in the amount of HRK 16.43bn, creditors have mutually contested claims in the amount of more than HRK 10.4bn.

Guarantees and co-debtorships contested by other creditors amount to more than HRK 101bn. The total sum of determined main claims to date, prior to the completion of civil litigations, thus amounts to HRK 31.04bn.

The amount of recognized debt to third parties, i.e. excluding mutual intercompany receivables within the Agrokor Group, exceeds EUR 5.2bn, out of which EUR 4.14bn relate to pre-petition claims, while EUR 1.06bn relate to the SPFA financing.

Interim Creditors' Council Supports Draft Settlement Plan Proposal

The Interim Creditors' Council held its thirteenth session on December 20, 2017, with the only point on the agenda being the presentation of the settlement plan proposal in the Extraordinary Administration Proceeding. The settlement plan proposal was presented by the Advisors to the Extraordinary Administration and the Extraordinary Commissioner, and the continued work on the settlement proposal as well as the closing of the settlement, to be decided upon by the creditors, ie. all verified claim holders, remain in the focus of the Extraordinary Administration's work in the first quarter of the year. The goal of the Extraordinary Administration is to achieve a settlement to be supported and voted for by the majority of all creditors by number and claim in each creditor group, or exceptionally, by not less than two thirds of all verified claims, within the deadline set forth by the Law, thus bringing the Extraordinary Administration Procedure to its successful end.

The Extraordinary Administration, in compliance with the Act on Extraordinary Administration Proceedings in Companies of Systemic Significance for the Republic of Croatia, submits monthly reports to the Commercial Court and the competent Ministry on the economic and financial position of and the implementation of extraordinary administration measures at Agrokor.

3. Economic and Financial Position of Agrokor Group Business Sectors as at February 28, 2018

In October 2017, after six months of intensive engagement of the Extraordinary Administration, restructuring advisers and individual operating companies, the viability plans for the individual companies and sectors within the Agrokor Group were completed and presented to the public. The plans are the result of significant efforts exerted in achieving operational improvements over the course of the months preceding its presentation and provide a stable platform for future operations and the settlement, their focus being the improvement of operating profits (EBITDA), the stabilization of business, securing of liquidity and regaining market confidence.

The basic conclusions of the viability plans basically come down to a major restructuring of the Retail business, continued growth and optimization of EBITDA effects in the Food sector, while the Agriculture sector counts on positive effects of capital expenditures in the past.

Such viability plan is the foundation for the long-term sustainability of most of the Group companies and the improvement of profitability as well as other key performance indicators in all the business segments, expected to also secure and preserve employment and have a further positive impact on the entire economy of the country and the region in which Agrokor operates.

The running and monitoring of as well as the reporting on the operating businesses as against the viability plan is organized in three segments:

- Retail and wholesale - include the summarized results of four companies (Konzum Croatia, Tisak, Konzum B&H, Velpro centar);
- Food - includes the summarized results of nine companies (Drinks – Jamnica, Roto dinamic, Sarajevski kiseljak; Ice cream and frozen food – Ledo, Frikom, Ledo Čitluk; Edible oils – Zvijezda, Dijamant; Meat – PIK Vrbovec);
- Agriculture - includes the summarized results of three companies (Belje, PIK Vinkovci and Vupik).

Results for 11 months of 2017 recorded by the aforesaid segments are presented in the table below, while the final operating results for the whole year 2017 will only be available after completion of the audit.

Jan - Nov 2017 performance*			
HRK m	Retail and Wholesale	Food	Agriculture
Revenue	13,418m	7,569m	2,539m
Gross margin	2,488m	2,610m	653m
Gross margin %	18.5%	34.5%	25.7%
EBITDA	-149m**	1,043m	283m
EBITDA %	-1.1%	13.8%	11.1%

- **Retail and wholesale** include the summarized result of four companies:
 - Retail: Konzum Croatia, Tisak, Konzum B&H
 - Wholesale: Velpro centar
- **Food** includes the summarized results of nine companies:
 - Drinks – Jamnica, Roto dinamic, Sarajevski kiseljak
 - Ice cream and frozen food – Ledo, Frikom, Ledo Čitluk
 - Edible oil – Zvezda, Dijamant
 - Meat – PIK Vrbovec
- **Agriculture** includes the summarized results of four companies:
 - Belje, PIK Vinkovci, Vupik and Agrokor Trgovina

***NOTES: Preliminary results :**

Summarized results of the period (without elimination of intercompany transactions and consolidation adjustments)

Revenues include sales of goods and services (on the domestic and foreign markets)

EBITDA = EBIT + amortization + value adjustments and impairments + provisions

COGS was calculated as cost of material + cost of goods sold +/- change in inventory values

The results of the 2016 audit are included in the 11 month results, but the comparisons and data stated for the period from March to September 2017 have mainly not been audited

** significant effect on EBITDA as of September 2017 as against the previously reported monthly data due to the reclassification of leasing costs from operating to financial at Konzum Croatia

The publicly disclosed viability plan for the entire Group including Mercator envisages an EBITDA realization in the year 2017 in the amount of approximately EUR 254m, i.e. HRK 1.9bn.

In view of the disastrous situation as found on April 10, 2017, when there was an almost complete discontinuation of production at the key companies, with empty storages and a threatening collapse of the entire distribution chain, including the distribution of daily press, as well as the store shelves emptied to a significant extent, it is safe to say that the threatening disaster was successfully avoided and a complete stabilization of the business accomplished. The results currently expected for the year-end of 2017 will exceed even the most optimistic forecasts from April last year.

In terms of the cash position, the Agrokor Group actively manages its liquidity with cash flow projections updated fortnightly and the weekly payment budgets being established and approved based on such forecasts for 19 major operating companies which account for more than 90% of the Group's cash flow.

As of November 24, 2017, the key Croatian companies other than those in the retail and wholesale segment have introduced a bi-weekly payment regime with only extraordinary payments being made on a weekly basis. Over the course of the period when the new financing was secured in June 2017, the proceeds from this loan were distributed to the operating companies for their operational needs. The money was mainly used to settle trade payables related to the period after April 10, 2017 and to replenish stocks at the companies.

As at February 28, 2018 the total liquidity available at Agrokor amounted to HRK 1.682bn.

The total effects of the re-establishment, maintenance and responsible management of Agrokor's liquidity on the numerous suppliers of the Group companies are positive in many aspects. As of the commencement of the Extraordinary Administration Procedure the suppliers' liquidity has been significantly improved by way of payment of the old and border debt as well as of all new invoices within their agreed maturities.

Over the course of the Extraordinary Administration period the suppliers are expected to receive payment of more than EUR 490m of old and border debt, including expected further payments of border debt in the amount of EUR 35m, remaining old debt payments from the Pool B allocation and the fulfillment of the trade tranche of the roll-up facility intended for suppliers.

Payments of old and border debt and achieving current liquidity has largely made it possible to raise new financing by means of the Super Priority Facility Agreement signed in June 2017.

In addition to the EUR 490m of old and border debt paid, by means of payments for current liabilities for goods and services delivered after the commencement of the Extraordinary Administration, suppliers received another more than EUR 2.1bn in total over the course of the Extraordinary Administration Procedure.

4. Key facts related to the settlement process

Following the transfer of duties, the Extraordinary Administration has been moving towards proposing a settlement plan consistent with the Law on Extraordinary Administration which would be approved by the Creditors before the 10 July 2018 deadline.

The newly appointed Extraordinary Administration continues working based on the draft settlement proposal that was presented to the Creditors and the public in December. Meanwhile, in the period since the presentation until the transfer and in the first days following the transfer of duties, a series of in-depth consultations and talks with creditor representatives were made and preconditions were made necessary to intensify direct talks between creditors and reaching an agreement in the following weeks. It is the goal of the new Extraordinary Administration to continue open communication with all creditors and to improve communication among the creditors.

The initial step was to design and communicate key objectives of the settlement and the methodology used in designing the proposed plan. A restructuring proposal outlining the key settlement considerations was presented to the Temporary Creditors Council in December and made public on 20th December. This proposal deliberately focused on principles and did not include any indications of debt capacity or recovery amounts to allow stakeholders to understand the proposal and concept before becoming completely focused on the recovery implications for the individual creditors. The philosophy could be defined as fair and equitable for involved stakeholders and in line with international best practice given the diverse type and number of creditors.

The proposal made it clear that the value of the company would be transferred to and ultimately owned by the creditors after the implementation of the settlement agreement.

In particular, similar to a bankruptcy procedure, the value of equity belonging to the owners is at the bottom of the priority list for payments, and ahead of them in the payment line are, in the following order: estate claims (costs of the procedure), followed by secured claims, SPFA claims, followed by unsecured claims and distressed shareholder loans. For this reason it is expected that the ownership structure will be significantly different, i.e. that the creditors will become the new owners. It is also expected that most of the creditors will have to write off a portion of their claims, based on the financial business projections and the assets of the entire system. Namely, the cash flows of the borrowers and guarantors are collectively insufficient to service all of their debts in a reasonable timeframe, hence these businesses are insolvent and, even though the valuation of the Agrokor system still needs to be confirmed, it is likely that the borrowers and the guarantors are altogether worth less than the amount of their overall debt.

The crucial issue for all creditors therefore relates to what share each claim or creditor will receive in recovery. As no more than 100% can be distributed, the main debate will be **between** creditors as any additional recovery for one or more creditors will be at the expense of recoveries for other creditors.

To reach an effective settlement it will be important to not only have a commercial arrangement which is supported by the required majority of creditors but also ensure the steps set out in the law are followed. The company currently has an Interim Creditors Council (ICC) and it is envisaged and expected that the creditors themselves will support and vote on the formation of a Permanent Creditors Council (PCC) – although this is likely to take until May to complete. At the beginning of February a deadline started according to which the creditors in each group have 30 days to select their representative and if one of the groups does not select their representative in that time, it activates a 60 day deadline after which the Court will appoint the representative. A total of 90 days of deadlines expire in the beginning of May, when legal preconditions will be fulfilled for forming the permanent Creditors' Council.

Early in February the former Commissioner made a proposal to the court on the composition of the groups for the PCC and this was duly publicized. In determining the groups for the PCC the company sought to ensure that creditors with different legal positions were in different classes and that those with similar economic conditions were grouped together as this ensures that within groups individual creditors are broadly aligned in terms of their status in the process and that no major differences would arise between the PCC and the creditor constituencies ultimately voting in support of the settlement agreement. With over 5,700 claims it will not be possible to completely align every creditor but the proposal by the company is fair and equitable.

In addition, many of the claims of creditors have been challenged by either the Commissioner or by other creditors. Some of the third party challenges are perceived by certain parties as tactical and designed to frustrate the process rather than for genuine reasons. The timeframe for creditors to actually commence litigation is dependent on the resolution of the appeals to the determined and challenged claims and soon thereafter the actual extent of the litigation will be clearer.

Two of the most important issues in finalizing the settlement plan will be resolving the members of the PCC and the challenged claims, particularly the guarantees (which are almost all challenged).

The company has continued to progress its recovery allocation analysis (EPM) both in terms of valuations and the priority in payment of each of the over 5,700 claims across the 77 entities in Extraordinary Administration and the 83 not in Extraordinary Administration that make up the group.

In line with international best practice it is customary that creditors can rely on advice from expert advisers, particularly when dealing with something as complex as the 160 companies at Agrokor. Progress has been hampered due to an inability to engage with advisers for the ICC (and ultimately PCC) – these advisers would effectively be ensuring that creditors are treated fairly and equitably in the restructuring. Recent discussions with the Court indicate that a solution to the ICC adviser issue has been agreed and it is expected that the ICC will vote to conclude on a team of advisers by the week commencing 5th March.

A disclosure policy has been recently agreed by the ICC and this has been published on the Agrokor website. A substantial amount of information has recently been shared with the proposed advisers to the ICC and this will be shared with the ICC ahead of a discussion which has been organized for 5th-7th March. The objectives of the meeting are to fully understand the proposal of the company, to understand the needs of each creditor group and the negotiating position of the stakeholders to subsequently narrow the differences between negotiating positions and develop a settlement plan which will have broad support.

The company is aiming to have a term sheet agreed for the settlement plan by 10 April 2018.

Separate from commercial discussions regarding the settlement plan, both the formation of the PCC and claim eligibility to vote on the settlement plan and share in the agreed recoveries will need to be resolved.

A substantial part of the claims recognized as valid by the Extraordinary Administration have been challenged by other creditors. These challenged claims do not have a right to vote until these challenges have been litigated in court which may not be concluded prior to the settlement agreement depriving these claims of a vote, unless the Court, at its discretion, grants voting power to creditors of such challenged claims at the settlement hearing. As these claims are likely concluded to be valid, they will be taken into account in the allocation of recoveries with these recovery allocations kept in trust.

The status of verified and challenged claims can potentially influence the dynamic of taking over the appropriate value by one individual creditor, but it should not affect their attitude and the acceptance of principles and parameters underlying the settlement.

The disenfranchisement of the vote and the deferred distribution of recoveries will erode broad support for a settlement plan and substantially raise the risk of a challenge of any court confirmed settlement agreement. In the interest of the process, broad support and the general reputation of the Republic of Croatia in international financial markets, the resolution of the claims challenged should, where possible, be accelerated with the responsible behavior of all stakeholders in the process.