

# AGROKOR

IZVANREDNA UPRAVA

## **MONTHLY REPORT ON ECONOMIC AND FINANCIAL STATE AND THE IMPLEMENTATION OF THE MEASURES OF EXTRAORDINARY ADMINISTRATION OF AGROKOR D.D.**

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**FOR THE PERIOD BETWEEN 11 AUGUST AND 10 SEPTEMBER 2017.**

*Prepared pursuant to Article 12 paragraph 9 of the Act on the procedure of extraordinary administration in commercial companies of systemic importance for the Republic of Croatia (Official Gazette 32/2017)*

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## 1. Executive summary

This monthly report provides an update on the economic and financial state of, and implementation of activities and measures under the Extraordinary administration of Agrokor d.d. in the period 11 August and 10 September 2017. The ongoing demanding process of financial and operational restructuring of the Group companies in the reporting period continues to improve the overall state of the Group, in particular with respect to the stabilization of the business operations of the group companies in retail.

The performance in the year to date of the retail sector has been suppressed by the inability to purchase goods and services as a result of the liquidity problems that the business has faced during the first half of the year. The situation has stabilized following the new financing and retail is now showing a positive financial trend, as well as an increase in customer numbers and average basket value. Although stock levels are beginning to normalize, negotiations with suppliers remain ongoing and continue to present challenges in returning stock availability to prior year levels.

The food companies continue to deliver solid results in the seven-month period. After the new financing, their primary focus was to increase stock in preparation for the summer season, as stock levels were significantly lower than last year. On the whole, the companies have managed to increase stock levels, however, the delay in doing this has impacted performance going into the summer season. Despite this, all companies from the food sector have better operative earnings (EBITDA) compared to the parallel period.

Revenue performance in the agricultural businesses is primarily dependent on crop yields and market prices with these performance drivers have varied across the businesses. All companies had successful harvests with record high yields, especially wheat, and purchasing from cooperation partners continues and payments are being made regularly. The new financing has stabilized the businesses and improved relations with suppliers and customers to allow trading to begin to return to more normalized levels. All group companies continue to develop and implement cost optimization and restructuring measures with the objective of further improving performance results for 2017 and beyond.

In the August meeting, the Temporary Creditors Council approved the payment of certain pre-petition claims that are due and payable. In the July meeting, members of the Temporary Creditor's Council had already approved the payment an amount of HRK 132 million for 2,166 suppliers, family farms (OPG), small entrepreneurs, micro-suppliers and small suppliers with annual revenue less than 5.2 million HRK, a

maximum of 2.6 million HRK in assets from so-called Pool A, whose debt will be paid in full. In August the members of the Temporary Creditor's Council approved amendments to payments of matured claims for an additional 284 micro-suppliers in the amount of HRK 19.5 million. In this way, debt in the total amount of HRK 151, 5 million will be to 2,450 micro-suppliers, small entrepreneurs and OPG paying them in full.

The second decision from August, refers to the payments to the remaining suppliers – small, medium and large – from the so called Pool B. An amount of HRK 603 million was approved for payment to 2,426 suppliers from this group in which old debt repayment is limited to a maximum of 40% of each individual total claim amount.

Through decisions that the Temporary Creditor's Council made in July and August, payment of old debt to a total of 4,876 Agrokor suppliers in all categories were approved. When these payments that were approved in the last two months are added to the payments of the old debt since the beginning of the extraordinary administration process, the total amount of old debt paid rises to HRK 1,051.1 million.

The Council approved the transaction relating to Konzum d.o.o. Sarajevo which will fulfill all the necessary preconditions to stabilize Agrokor's retail business in Bosnia and Herzegovina.

During the reporting period, the extensive communication with the stakeholders in Bosnia and Herzegovina continued, with the activities in the market focusing on the transformation of Agrokor's retail business in the country, providing Konzum BiH with a liquidity injection in order to help restore the business to profitability, and revitalizing Mercator's brand in the market.

By 25 August 2017, 305 indicative applications have been received from the suppliers who have expressed their interest to participate in the 50 million EUR trade finance facility. The total value of the indicative interest is significantly in excess of the available facility. The review process and validation of applications, along with allocation, will be determined in September 2017.

Further progress has been made on the Group's viability plan, with initial draft viability plans which have been completed for the five divisions (Agrokor Group including Agrokor d.d., retail, food, agri-business, and Agrokor Portfolio Holdings) and nine businesses in the previous reporting period now being refined. The drafted viability plans were presented in an extensive internal two-day leadership workshop where the drafts were discussed and critiqued. The workshop feedback is currently being incorporated into the individual plans which are due to be completed by 30 September 2017.

Developments in the litigation and enforcement proceedings formally issued against Agrokor d.d. and a number of affiliates in the present reporting period are detailed in the report. This includes the High Commercial Court decision of 1 August 2017 which dismissed the appeal lodged by Sberbank of Russia on the legality of the new refinancing and the refinancing model and confirmed the original decision of the Commercial Court in Zagreb of 27 June 2017 that this was valid.

## 2. State of companies under the Extraordinary Administration during the reporting period

The financial information in the table below relates to the seven months (year-to-date) revenue, gross margin and EBITDA for certain key companies. As the 2016 financial statements are currently being audited, no comparable information in relation to the prior year has been included.

Financial results for individual companies for the first seven months of 2017, included in this section, are not audited. A summary of the audited results for FY 2016 will be included in one of the upcoming monthly reports, once available. As previously stated, the unaudited information for 2016 is unreliable.

### Jan – July 2017 performance\*

HRK m	Retail and Wholesale	Food	Agriculture
Revenue	8,793m	5,010m	1,587m
Gross margin	1,153m	1,812m	406m
Gross margin %	13.1%	36.2%	25.6%
EBITDA	-203m	757m	184m
EBITDA %	-2.3%	15.1%	11.6%

▪ **Retail and Wholesale** includes 5 companies summarized results:

- Retail: Konzum Croatia, Konzum B&H, Tisak
- Wholesale: Velpro centar and Velpro B&H

▪ **Food** includes 9 companies summarized results:

- Beverages: Jamnica, Sarajevski kiseljak and Roto dinamic
- Ice Cream and Frozen Food: Ledo, Frikom and Ledo Čitluk
- Oil: Zvijezda and Dijamant
- Meat: PIK Vrbovec

▪ **Agriculture** includes 4 companies summarized results:

- Belje, PIK Vinkovci, Vupik and Agrokor Trgovina

▪ Summarized YTD results, i.e. no elimination of intercompany transactions and no consolidation adjustments

▪ Revenue includes sales of goods and services (domestic and foreign)

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

▪ COGS calculated as Cost of materials plus cost of goods sold +/- change in inventory

▪ Preliminary results; bookings for July 2017 not fully completed;

▪ FY16 audit is still ongoing and certain audit adjustments not yet recorded by companies – may result in changes of seven months results reported by companies (amounts and/or classification)

Source: company data

\*NOTE: All results are estimated.

Retail performance in the year to date has been suppressed by the inability to purchase goods and services as a result of the liquidity problems that the business has faced during the first half of the year. The situation has stabilized following the new financing and retail is now showing a positive financial trend, as well as an increase in customer numbers and average basket value. Although stock levels are beginning to normalize, negotiations with suppliers remain ongoing and continue to present challenges in returning stock to prior year levels.

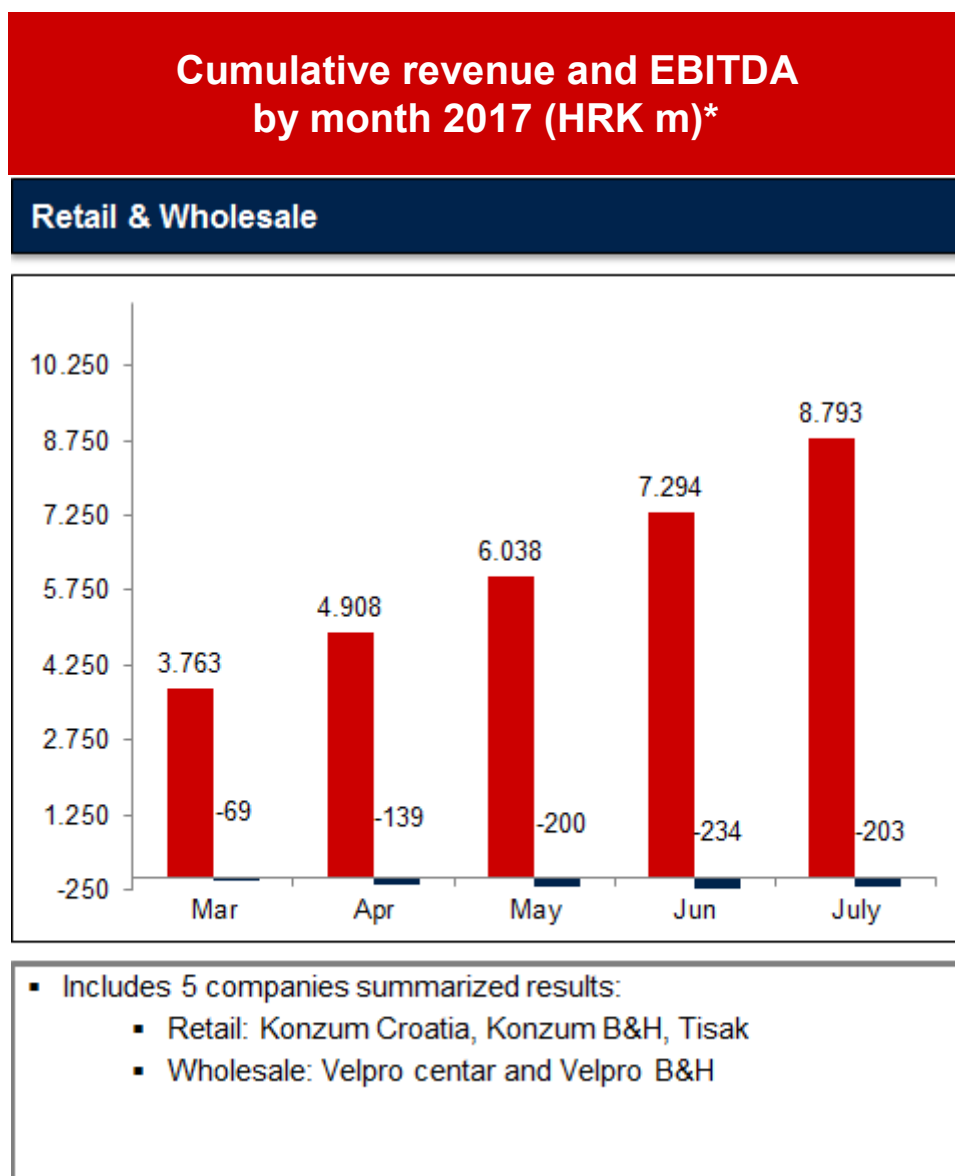
The Food companies continue to deliver solid results in the seven-month period. After the new financing, their primary focus was to increase stock in preparation for the summer season, as stock levels were significantly lower than last year. On the whole, the companies have managed to increase stock levels, however, the delay in doing this has impacted performance going into the summer season. Despite this, all companies from the food sector have better operative earnings (EBITDA) compared to the parallel period.

Revenue performance in the Agricultural businesses is primarily dependent on crop yields and market prices with these performance drivers being mixed across the businesses. All companies had successful harvests with record high yields, especially wheat, and purchasing from cooperation partners continues and payments are being made regularly. The new financing has stabilized the businesses and improved relations with suppliers and customers to allow trading to begin to return to more normalized levels.

All group companies continue to develop and implement cost optimization and restructuring measures with the objective of further improving performance results for 2017 and beyond.

## 2.1. Companies in the retail and wholesale sector

Companies in the retail and wholesale sector are Konzum, Konzum B&H, Tisak, Velpro centar, and Velpro B&H. The table below shows the cumulative revenue and EBITDA by month for the sector, with results of Croatian individual companies portrayed in detail in subsections which follow.



■ Revenue ■ EBITDA

**\*NOTE: All results are estimated.**



## 2.1.1. Companies in the retail and wholesale sector: Konzum d.d.

### 2.1.1.1. Financial results YTD and KPIs

<b>Financial results*</b>	<b>I-VII 2017 (HRK m)</b>
Revenue	5,167
EBITDA	-27
EBITDA %	-0,5%
<b>Key performance indicators</b>	<b>I-VII 2017</b>
Gross margin %	14%
DSO	16 days
DIO	37 days

*\*NOTE: All results are estimated.*

### 2.1.1.2. Commentary on recent trading

- In the first seven months of 2017 Konzum experienced liquidity and solvency problems resulting in some suppliers terminating their relationship with the Company. This caused out-of-stocks, loss of customers and a drop in the value of the average basket. These events continue to negatively affect revenue in July 2017. The gross margin has been impacted by lower sales revenue but also by investments in prices and promotions to drive footfall.
- Inventory levels decreased mainly due to liquidity issues resulting in a decrease of DIO. Out-of-stocks are lower than the previous months in 2017 but still present a challenge as they are the main driver of the negative footfall and basket size decrease. OOS are predominantly a result of credit insurer's unwillingness to support the delivery of goods, especially private label.
- The decrease in DSO mainly reflects the better collection of receivables from credit card companies.
- Restructuring activities were undertaken in July with almost all of the remaining Kozmo stores (drug stores) being closed.

## 2.1.2. Companies in the retail and wholesale sector: Tisak d.d.

### 2.1.2.1. Financial results YTD and KPIs

Financial results*	I-VII 2017 (HRK m)
Revenue	1,172
EBITDA	-37
EBITDA %	-3%
Key performance indicators	I-VII 2017
Gross margin %	20%
DSO	23 days
DIO	20 days

*\*NOTE: All results are estimated.*

### 2.1.2.2. Commentary on recent trading

- a significant decrease in revenue is the outcome of solvency issues, in the period before and after the commencement of the Extraordinary Administration. Revenue continued to decline in July 2017 as there was a lack of sales personnel available for the tourist season and consequently some of the seasonal sales outlets were not opened, while some were closed as part of Tisak's plan to close unprofitable outlets.
- Following the appointment of the new Board in June, there has been a reduction in operating expenses and the benefit of this is now starting to show in Tisak's financial performance.
- DSO decreased due to improved collection of receivables. However, challenges still remain with customers who are also suppliers of Tisak or other entities within the wider Agrokor Group. Some of those customers are currently not willing to settle due invoices because of the pre-9th April 2017 outstanding payable balances.
- DIO decreased due to significant inventory value adjustments made at the last year end in December 2016.

## 2.1.3. Companies in the retail and wholesale sector: Velpro - Centar d.o.o.

### 2.1.3.1. Financial results YTD and KPIs

<b>Financial results*</b>	<b>I-VII 2017 (HRK m)</b>
Revenue	1,064
EBITDA	-62
EBITDA %	-6%
<b>Key performance indicators</b>	<b>I-VII 2017</b>
Gross margin %	5%
DSO	84 days
DIO	31 days

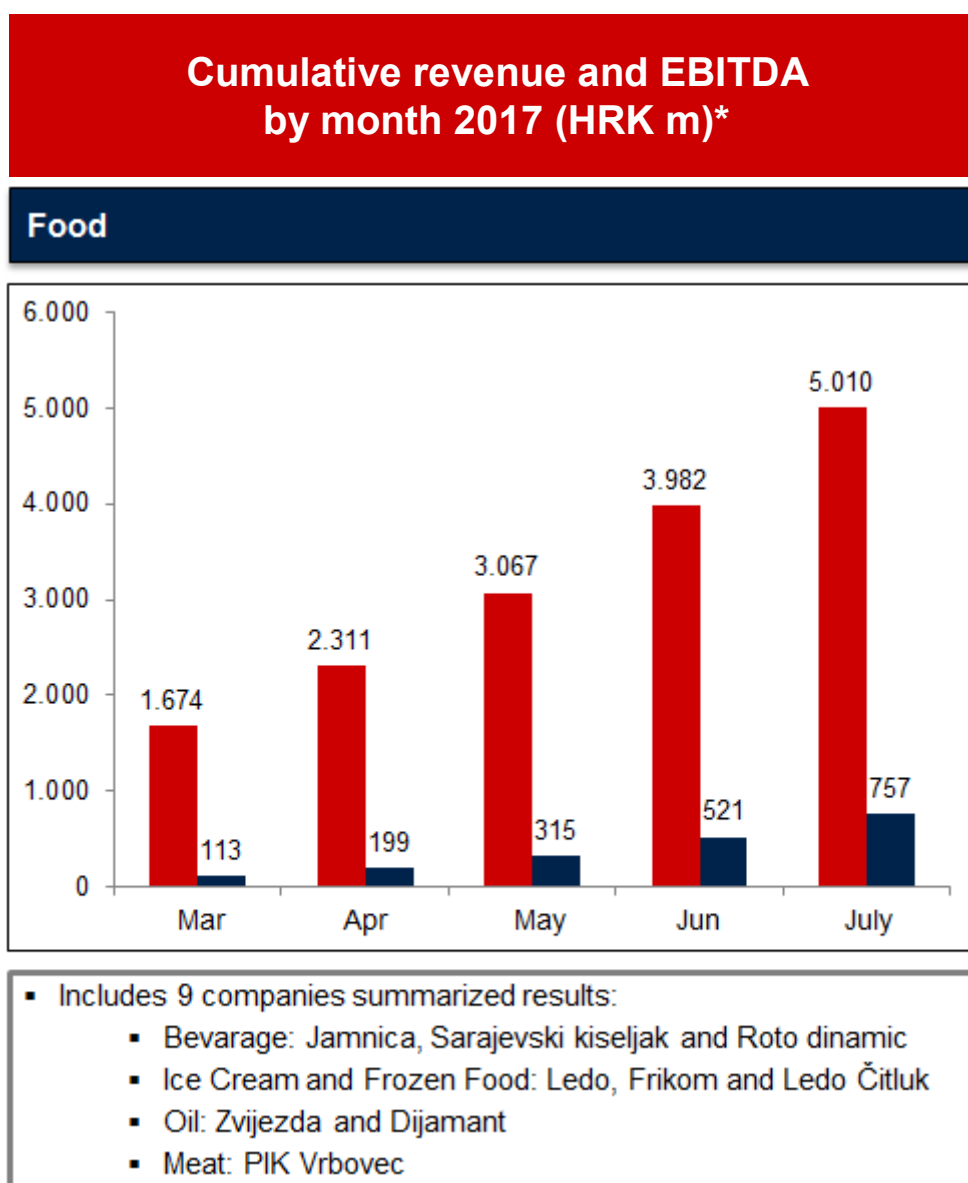
*\*NOTE: All results are estimated.*

### 2.1.3.2. Commentary on recent trading

- The lack of availability of certain critical stock items had a significant adverse impact on revenue in the YTD July 2017. Velpro has however been able to negotiate and sign new annual contracts with existing and new customers.
- The business restocked prior to the summer season to capitalize on continued strong footfall and support from core customers. Difficult but appropriate decisions were taken around re-pricing or terminating a number of unprofitable business relationships. These decisions are showing positive results on both top line and bottom line for the business segments on which Velpro is focused.
- The increase in DSO was mainly driven by the termination of the previous compensation practice which has slowed the pace of collection.
- Seasonal inventory increases occurred as planned, however absolute stock levels remain lower than last year's.

## 2.2. Companies in the food sector

Companies in the food sector are Jamnica, Sarajevski kiseljak, Roto dinamic, Ledo, Frikom, Ledo Čitluk, Zvijezda, Dijamant, and PIK Vrbovec. The table below shows cumulative revenue and EBITDA by month for the sector, with results of Croatian individual companies portrayed in detail in subsections which follow.



■ Revenue ■ EBITDA

**\*NOTE: All results are estimated.**

## 2.2.1. Companies in the food sector: Jamnica d.d.

### 2.2.1.1. Financial results YTD and KPIs

Financial results*	I-VII 2017 (HRK m)
Revenue**	844
EBITDA	194
EBITDA %	23%
Key performance indicators	I-VII 2017
Gross margin %***	55%
DSO	109 days
DIO	62 days

**\*NOTE: All results are estimated.**

\*\*Revenue calculated as Sales revenue of goods and services (domestic and foreign)

\*\*\* Gross margin calculated based on Revenue minus cost of material & cost of goods sold +/- change in inventory

### 2.2.1.2. Commentary on recent trading

- Jamnica's 2017 year to date results exceeded expectations with a LFL sales increase of 6 per cent.
- A comprehensive restructuring process was initiated in 2016 with activities aimed at increasing operational efficiency, which has resulted in a significant increase in profitability in terms of EBITDA. This trend was visible in both H1 and July results in 2017.
- Negotiation efforts and the improved liquidity position have resulted in the majority of suppliers returning back to normal payment terms.
- Days sales outstanding (DSO) are stabilizing in 2017 as a consequence of the normalization of external customers' days and the recovery of normal payment terms with internal customers which doubled Jamnica's inflows.
- Days inventory outstanding (DIO) are stable despite liquidity issues at the beginning of the year. There has been significant focus on ensuring adequate stock levels for the season.

## 2.2.2. Companies in the food sector: Roto dinamic d.o.o.

### 2.2.2.1. Financial results YTD and KPIs

<b>Financial results*</b>	<b>I-VII 2017 (HRK m)</b>
Revenue	600
EBITDA	37
EBITDA %	6%
<b>Key performance indicators</b>	<b>I-VII 2017</b>
Gross margin %	20%
DSO	61 days
DIO	51 days

*\*NOTE: All results are estimated.*

### 2.2.2.2. Commentary on recent trading

- Revenue from merchandise sales continues to have a positive trend throughout July reaching 600 million HRK YTD.
- EBITDA margin remains around 6%, and the company is focused on further profit improvement measures.
- Collection of receivables improved throughout July as Roto Dinamic has focused on working capital optimization.
- Restructuring activities during July were focused on optimization of distribution centers and shops.

## 2.2.3. Companies in the food sector: Ledo d.d.

### 2.2.3.1. Financial results YTD and KPIs

<b>Financial results*</b>	<b>I-VII 2017 (HRK m)</b>
Revenue	657
EBITDA	157
EBITDA %	24%
<b>Key performance indicators</b>	<b>I-VII 2017</b>
Gross margin %	46%
DSO	90 days
DIO	90 days

*\*NOTE: All results are estimated.*

### 2.2.3.2. Commentary on recent trading

- In the first months of 2017 the reduced levels of merchandise and raw materials, as well as the loss of certain HoReCa customers were the main drivers of the decrease in Ledo's sales. These factors forced Ledo to change its sales mix by focusing on products with higher margins, mainly ice-cream, which has increased the EBITDA margin to 24% in YTD.
- Normalization of business processes and relationships with customers and suppliers, especially in HoReCa has allowed Ledo to return to pre-petition payment terms with some customers.
- Ledo has initiated a restructuring and operational efficiency process and has already experienced tangible effects on the profitability.

## 2.2.4. Companies in the food sector: Zvijezda d.d.

### 2.2.4.1. Financial results YTD and KPIs

Financial results*	I-VII 2017 (HRK m)
Revenue	370
EBITDA	34
EBITDA %	9%
Key performance indicators	I-VII 2017
Gross margin %	27%
DSO	94 days
DIO	53 days

*\*NOTE: All results are estimated.*

### 2.2.4.2. Commentary on recent trading

- Zvijezda prepared well for the summer season and managed to secure optimal levels of stock as well as planning new marketing activities to boost sales and consumption.
- In the past few months Zvijezda focused on the most profitable products, which, combined with improved operational efficiency, had a positive impact on the EBITDA.
- Financial stability has enabled regular deliveries of goods from suppliers which resulted in increased production of finished goods in July 2017 compared to previous periods in 2017.
- Collection of domestic receivables increased considerably in July with inflow from external customers being higher due to the abolition of multiple compensations and regular collection of current receivables. Intragroup receivables are also being collected on time.
- Zvijezda increased the stock of finished products and raw materials avoiding out of stock situations to be fully prepared for the tourist season.



## 2.2.5. Companies in the food sector: PIK Vrbovec d.d.

### 2.2.5.1. Financial results YTD and KPIs

Financial results*	I-VII 2017 (HRK m)
Revenue	1,003
EBITDA	59
EBITDA %	6%
Key performance indicators	I-VII 2017
Gross margin %	25%
DSO	126 days
DIO	37 days

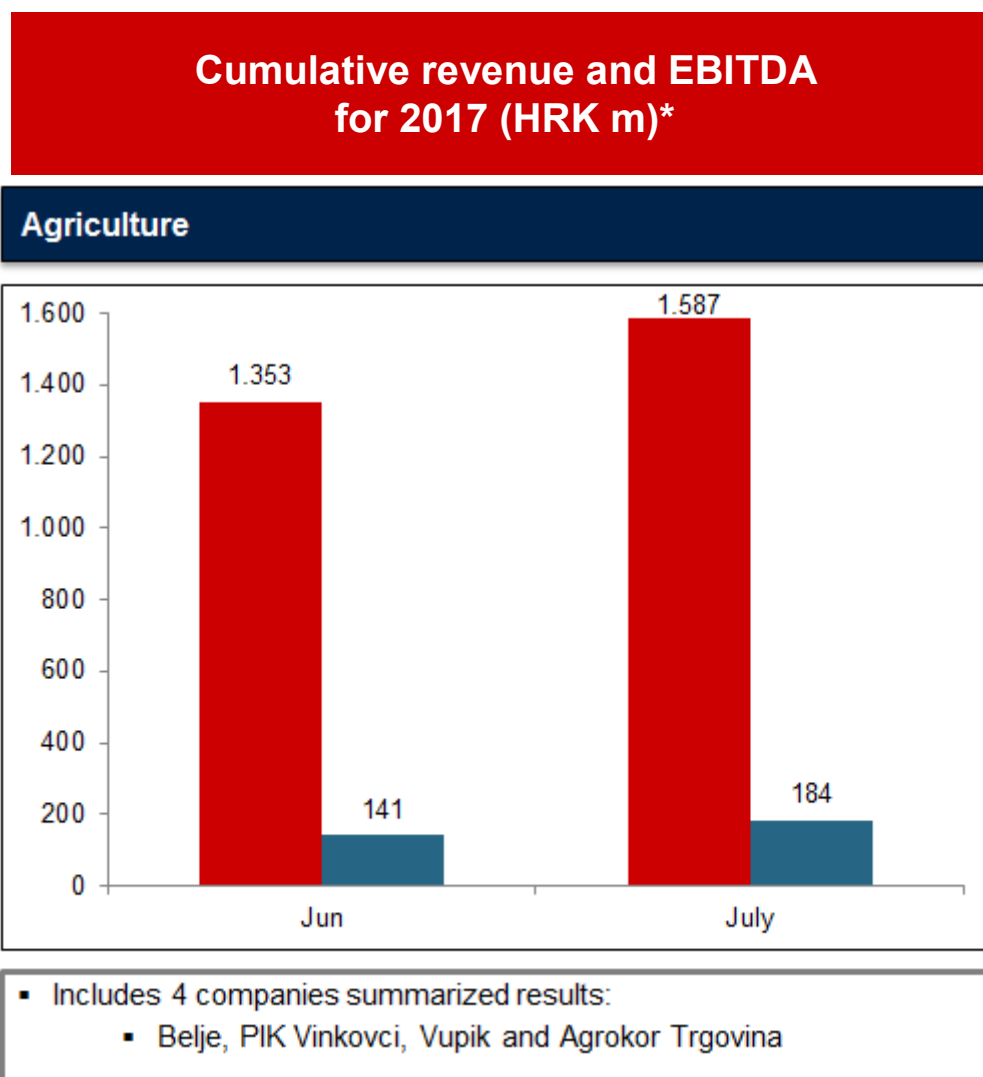
*\*NOTE: All results are estimated.*

### 2.2.5.2. Commentary on recent trading

- Sales revenue in July 2017 was impacted by the lack of raw materials and consequently lower production levels in March and April 2017.
- Raw material prices have stabilized in July 2017 after a sharp increase in the previous months which had, along with the liquidity issues, a major impact on profitability in the first 6 months of 2017.
- PIK Vrbovec has experienced a decrease in inventories as a consequence of not being able to build inventory in March and April and currently, although production is at maximum capacity, all finished goods are immediately sold.
- In July 2017 PIK Vrbovec commenced restructuring activities with a focus on improving the cost base of the business.

## 2.3. Companies in the agriculture sector

Companies in the agriculture sector are Belje, PIK Vinkovci, Vupik and Agrokor Trgovina. The table below shows the cumulative revenue and EBITDA for the sector, with results of individual companies portrayed in detail in subsections which follow.



■ Revenue ■ EBITDA

**\*NOTE: All results are estimated.**

## 2.3.1. Companies in the agriculture sector: Belje d.d.

### 2.3.1.1. Financial results YTD and KPIs

Financial results*	I-VII 2017 (HRK m)
Revenue	713
EBITDA	111
EBITDA %	16%
Key performance indicators	I-VII 2017
Gross margin %	33%
DSO	86 days
DIO	214 days

*\*NOTE: All results are estimated.*

### 2.3.1.2. Commentary on recent trading

- Cumulative revenues for the first 7 months of 2017 were negatively affected by liquidity problems that caused restrictions in available raw materials and packaging in the initial months. However, as the visible indicators of agricultural production were strong, realized margins for the first seven months of 2017 have been at high levels with gross margin of 33% and EBITDA margin of 16%.
- Increased crop yield (especially rapeseed, wheat and tomatoes) resulted in increased revenue in July. Feedstock however did not reach planned revenues in July due to issues with raw materials in the first quarter of 2017 and the cancellation of certain sales orders by external customers.
- Profitability improved in July due to cost saving measures implemented in recent months and lower than expected costs due to excellent natural indicators of livestock production.
- Belje is making significant efforts into collecting receivables from customers, however, some customers connected with other Agrokora companies are currently reluctant to pay on agreed terms as other Agrokora companies have outstanding amounts due to them.
- Inventory levels are higher in July due to the growth of raw material stock which is required for the animal feed production.

## 2.3.2. Companies in the agriculture sector: PIK Vinkovci d.d.

### 2.3.2.1. Financial results YTD and KPIs

<b>Financial results*</b>	<b>I-VII 2017 (HRK m)</b>
Revenue	185
EBITDA	17
EBITDA %	9%
<b>Key performance indicators</b>	<b>I-VII 2017</b>
Gross margin %	37%
DSO	81 days
DIO	409 days

*\*NOTE: All results are estimated.*

### 2.3.2.2. Commentary on recent trading

- This year's revenues were influenced by the fact that PIK Vinkovci transferred its frozen vegetables production to Vinka at the end of last year.
- PIK Vinkovci has started to optimize its business operations and reduce costs with the aim of improving EBITDA.
- The reduction in receivables during July is a consequence of prompt payments from other Agrokora companies.
- Lower level of inventories in the current period is a consequence of the sale of inventories to free cash for the purchase of goods from subcontractors.

## 2.3.3. Companies in the agriculture sector: Vupik d.d.

### 2.3.3.1. Financial results YTD and KPIs

Financial results*	I-VII 2017 (HRK m)
Revenue	170
EBITDA	38
EBITDA %	22%
Key performance indicators	I-VII 2017
Gross margin %	38%
DSO	85 days
DIO	269 days

*\*NOTE: All results are estimated.*

### 2.3.3.2. Commentary on recent trading

- In the seven months to July 2017, Vupik recorded a fall in revenues in the Cooperation segment due to a lower number of contracts for the purchase of wheat and a drop in revenues from wine production due to a switch to consignment business with Konzum. However, as a result of crop harvesting, revenues from wine and beef cattle increased in July 2017.
- Despite lower revenues in the first seven months of 2017 there was a significant increase in EBITDA due to a planned rationalization and reduction of costs (in particular a decrease in the cost of raw materials and materials). July brought a significant increase in EBITDA due to higher revenue from harvested crops, mostly wheat that had record yields, increased sales of wine, as well as increased revenue from services at the reloading port.
- The realization of agricultural products, mostly wheat and fattened pigs, has also driven an increase in receivables during July which will be collected in August.
- Due to the recent financing, the liquidity position has significantly improved and caused business processes to normalize and an improvement in relations with both suppliers and customers.
- During recent months a restructuring strategy has also been defined in relation to the cattle and dairy production segments, which will include the cessation of unprofitable parts of the business.

## 2.3.4. Companies in the agriculture sector: Agrokor trgovina d.o.o.

### 2.3.4.1. Financial results YTD and KPIs

<b>Financial results*</b>	<b>I-VII 2017 (HRK m)</b>
Revenue	519
EBITDA	18
EBITDA %	3%
<b>Key performance indicators</b>	<b>I-VII 2017</b>
Gross margin %	7%
DSO	58 days
DIO	9 days

*\*NOTE: All results are estimated.*

### 2.3.4.2. Commentary on recent trading

- In the first 7 months of 2017 revenues were lower due to the reduced wheat volumes and a loss of credit lines from insurance companies. There has also been some concerns from international partners who are reluctant to continue cooperation with the Company.
- The decreased wheat crop in Croatia and currently uncompetitive market prices are the main drivers of lower revenues in July 2017.
- Collecting receivables is still challenging from some buyers who transact with other companies in the Agrokor Group and at the same time have outstanding old debt claims open with these companies.
- In July Agrokor trgovina started the process of completing agreements with key suppliers to return to the trading terms which were in place prior to the Extraordinary Administration.

## 3. Short-term cash position

### 3.1. Cash management

Agrokor continues to actively manage its liquidity with cash flow forecasts being updated on a bi-weekly basis, and weekly payment budgets being set and approved based on these forecasts. In order to assist with the liquidity in the Group, HRK 994 million of the new finance raised has been deployed in the businesses to date.

As discussed in the previous monthly report, this cash has been used primarily for a combination of unwinding trade payables in relation to the period post 10 April 2017, and for restocking the businesses to allow them to take advantage of the peak summer season.

### 3.2. Supplier claims settlement

It was communicated publicly in the week ending 28 July 2017 that there would be a tranche of €150m made available for settlement of pre-petition trade claims. This €150m tranche has been split into three pools:

This €150m tranche was originally split into three pools:

- **Pool A (up to €30 million):** Dedicated pool for 'micro' suppliers, defined as family farms (OPG), small entrepreneurs, small and micro-suppliers with annual revenue less than HRK 5.2 million, a maximum of HRK 2.6 million in assets and up to 10 employees
- **Pool B (€110 - €120 million):** This pool is open to all suppliers (except the Pool A micro-suppliers). Suppliers must confirm they will return to historic and/or industry standard terms of supply in order to be eligible; and
- **Pool C (up to €10 million):** Discretionary pool for settlement of pre-petition trade suppliers in accordance with identified business needs.

## 1) Pool A update

### a. First round payment

At a meeting held in July members of the Temporary Creditors' Council gave approval to Agrokor to pay old debt in the total amount of HRK 132 million to 2,166 suppliers, more precisely to family farms (OPG), small entrepreneurs and micro-suppliers whose annual revenue was less than HRK 5,2 million, so called Group A who will receive payment of debt in full.

### b. Second round payment

As Pool A suppliers continued to contact Agrokor, or provide additional information on their claims, it has been necessary to reassess certain claims and a number of additional eligible suppliers have been identified. Consequently, in August, members of the Temporary Creditors' Council have approved amendments to payments of matured claims for additional 284 micro-suppliers compared to payments to small suppliers anticipated by the decision from 26 June 2017 for repaying debts that were generated before the initiation of the extraordinary administration in the amount of HRK 19.5 million. In this way, debt in the total amount of HRK 151, 5 million to 2,450 micro-suppliers, small entrepreneurs and OPG will be paid in full.

We highlight that the new financing arrangement limits Agrokor in lending to affiliated companies who are not also guarantors for the obligations in this new financial arrangement. Tisak currently does not guarantee this financing because it still does not have the approval of its governing bodies and consequently, the funds for payment of Tisak's suppliers still have not been secured from the new financing. Talks are on-going on this matter and the Extraordinary Administrator is hopeful that a resolution can be reached quickly which will result in the guarantee being entered into and funds being made available in the same manner as they have for the other relevant entities within the Group.



## 2) Pool B update

### a. Allocation of funds

The funds in Pool B are to be allocated to suppliers based on their claims and ongoing support for the business, the overarching approach to allocation is split between the following two tranches:

- **Pro rata tranche:** €27.5m distributed on a pro rata basis to all Old Debt suppliers that have filed their claims to the Extraordinary Administration
- **Proportional tranche:** Up to €92.5m allocated on a proportional basis to suppliers holding Old Debt that have filed their claims in the Extraordinary Administration and have agreed to sign an agreement with the Agrokor Group company to return to historic supplier terms going forward

### b. Eligibility assessment process

In order to determine the amounts to be allocated in Pool B, a two-step process is being applied:

- 1.1. Each Group company determined important suppliers and offered the new supply contracts;
- 2.1. Companies with signed contracts were eligible for allocation of €92.5m from Pool B

On 31 August 2017, the Temporary Creditor's Council approved the distribution of a tranche of €27.5m on pro rata principle and has agreed that participant recoveries in the Proportional tranche of €92.5m tranche are to be capped at 40%. After payments to the remaining suppliers have been made – small, medium and large – from the so called Group B, it is expected that an amount of HRK 603 million will be paid to 2,426 suppliers from this group.

Through decisions that the Temporary Creditor's Council made in July and August, payment of old debt to a total of 4,876 Agrokor suppliers in all categories was approved. When these payments, approved in the last two months, are added to the payments of the old debt since the beginning of the

extraordinary administration process, the total amount of paid old debt will exceed one billion kuna (HRK 1,051.1 million).

### **3.3. Trade finance facility**

Expressions of interest were submitted by 25 August 2017 for participation in the €50m trade finance facility with 305 indicative applications being received and the total value of indicative interest is significantly in excess of the available facility.

Agrokor is in the process of reviewing and validating the applications with allocation to be determined in the course of September 2017.

## 4. Business reviews

Significant progress was made on the viability of the Group since the last monthly report. The initial draft viability plans of the five divisions and nine businesses/companies (see below) continue to be refined since the last monthly report.

Overview of 5 Divisions and 9 Businesses, making up 14 planning entities

Agrokor Group incl. Agrokor DD (Holding)					
<b>Divisions (4 +1)</b>	<b>Retail</b>	<b>Food</b>	<b>Agri-Business</b>	<b>APH: A. Portfolio Holdings</b>	
<b>Businesses (Σ 9)</b>	<ul style="list-style-type: none"> <li>• Mercator</li> <li>• Konzum</li> <li>• Velpro</li> <li>• Tisak</li> <li>• <u>BiH</u> business</li> </ul>	<ul style="list-style-type: none"> <li>• Beverages</li> <li>• Frozen</li> <li>• Oils</li> <li>• Meat</li> </ul>			
<b>Legal entities (Σ143)</b>	26	33	17	66	1

The division and business leaders presented a draft version of their individual plans in an extensive internal two-day leadership workshop in mid-August. During this workshop, the drafts were critiqued. The feedback received there and in subsequent detailed review sessions is currently being incorporated into the individual plans which are due to be completed by 30 September 2017.

### 4.1. Restructuring of retail in Bosnia and Herzegovina

Commercial terms have now been agreed for the transfer of 83 stores from Konzum BiH to Mercator. The transfers are anticipated to happen during September once contracts are finalized. Konzum BiH is in the process of taking steps to recapitalize its balance sheet. A plan has been developed and approved in principle by the Temporary Creditors Council. The tactical steps underpinning this plan are now being finalized and will be implemented in the coming weeks.

Agrokor d.d. also intends to provide Konzum BiH with a liquidity injection in the amount of up to EUR 15 million, which will be used to reduce creditor arrears and secure future supplies necessary to minimize stock-outs which will help restore the business to profitability.

Operational restructuring measures are being implemented and a strong dialogue with stakeholders is ongoing as part of this process.

## 5. Litigation

The present reporting period, 11 August – 10 September 2017, saw some developments in the various litigation and enforcement proceedings formally issued against Agrokor d.d. and a number of its affiliates which have been reported on in detail in the last monthly report.

During the period the extraordinary administration was successful in Croatia in defending the appeal by Sberbank of Russia to the High Commercial Court regarding their application to annul the decision of the Temporary Creditors' Council to approve the new financing. Sberbank's appeal was rejected by the High Commercial Court by a decision dated 1 August 2017 which was received during the period and which confirms that the new refinancing and the refinancing model was valid.

In Slovenia the extraordinary administration has filed responses to the objections and appeals filed by two Sberbank entities and the Republic of Slovenia in the recognition of the Extraordinary Administration proceedings. The existing proceedings in Slovenia remained suspended by operation of law pursuant to the recognition order granted on 14 July 2017 and further declaratory decisions suspending the new proceedings are expected during the next reporting period.

In Serbia, further enforcement, litigation and temporary injunction proceedings have been served by Banca Intesa and banks from Sberbank Group from Croatia and Slovenia in respect of a number of shareholdings in Serbia. The extraordinary administration has either filed or will be filing objections or appeals to these proceedings.

On 30 August the first instance Serbian court rejected the extraordinary administration's application for recognition of the Extraordinary Administration Procedure in Serbia. The extraordinary administration is preparing an appeal to this decision, which will be filed during the next period.

It is understood that further proceedings have been issued by members of the Sberbank group in both Serbia and Bosnia and Herzegovina against Agrokor Group companies. Very little documentation in respect of these proceedings has been served on the extraordinary administration, but the necessary steps will be taken as such service takes place. The extraordinary administration has filed an application for recognition of the Extraordinary Administration Procedure in Bosnia and Herzegovina, which has been challenged by Sberbank. The extraordinary administration is awaiting service of the Sberbank's objections and will take steps to resist such objections.

In England and Wales, Sberbank has objected to the application for recognition of the Extraordinary Administration Procedure. A reply by the Extraordinary administration has been filed, and a hearing is scheduled for the end of October. The arbitration proceedings have been stayed pending the resolution of this application.

There are no further developments in other procedures.

## 6. Temporary Creditors Council

The Temporary Creditors Council convened once in the period from 11 August to 10 September (6th session).

The Temporary Creditors Council held its 6th meeting on 31 August 2017. All members attended the meeting.

The agenda had four approval items and three information items.

Approvals have been sought for:

- payment of pre-petition claims due and payable to family farms (OPG), small entrepreneurs and micro-suppliers with annual revenue less than HRK 5.2 million, a maximum of HRK 2.6 million in assets, and up to 10 employees – additions to the payments provided for in the decision made on 26 July 2017
- payment of pre-petition claims due and payable to other suppliers
- transactions relating to Konzum d.o.o. Sarajevo (as discussed in Section 4.1 above)
- payments to critical suppliers

Approvals have been given on each of the items by a majority vote.

Information items on the agenda included: status of the suppliers' tranche under the Contract of financing with superseniority status, and developments in restructuring.

## 7. Registration of claims

Throughout August the processing of the applications for the registration of claims continued. The Commercial Court in Zagreb extended the Extraordinary Administration to three new companies in July and as a result the applications for the claims registration with respect to these companies have started coming in.

The total number of claim registration applications received is 12,329 out of which 48 are related to the three new companies under the Extraordinary Administration. In addition, 408 claim registrations were received after the legally prescribed application deadline. A total of 12,149 applications have been processed so far.

The processing of applications is ongoing and continues to be carried out through an interface that allows access to registered claims for every single company, as well as processing of all relevant data for the registration of each and every claim. Since the final stage of claim registration is ongoing, technical and logic checks of the accuracy of the data are being performed, in respect of the recognized and the disputed claims. This final checking phase includes engagement with the legal departments of the companies involved, so that each and every decision is properly recorded and documented. The table containing confirmed and disputed claims will be delivered to the Commercial Court in the middle of October.

## 8. Stakeholder relations and communications

In this reporting period regular, direct and formal communication with all key stakeholders was continued through different communication channels in which all creditors, debtors, unions, employees, management as well as government and institution representatives in countries in which Agrokor has business operations have been included.

Internal communication continues to be focused on the development of the situation in retail as well on the repayment of debt owed to suppliers and operational restructuring of Agrokor. A meeting of operational management of Agrokor companies was held on the 19th and 20th of August 2017 in which the extraordinary trustee, management board members of Agrokor companies and representatives of consulting firms, international restructuring advisors, AlixPartners, Houlihan Lokey and international legal advisors, the law firm Kirkland & Ellis have participated. Current business performance and key aspects of the business plans with the emphasis on restructuring and viability of each company were presented at the meeting.

The Extraordinary Administration continues to maintain equitable communication with all classes of creditors, according to which direct meetings with creditors as well as a session of the Temporary Creditors' Council has been held during the reporting period, details of which have been presented in chapter 6 of this report.

Regarding the activities of the Extraordinary Administration in direct communication with the media, during this reporting period the Extraordinary Administration has participated in about 50 media activities in countries in the region in which Agrokor has business operations, in which 9 media publications, 2 media briefings, 2 media statements and 36 responses to various inquiries from the media are included.

During the reporting period, in direct communication with regional media in Croatia, Bosnia and Herzegovina, Slovenia, as well as with international media, various activities and processes related to the Extraordinary administration proceeding form a significant part of overall activities in communication with the media.

Key subjects which have dominated everyday media space in the past period include half-yearly results of Agrokor companies, development of legal processes in relation to the Extraordinary administration proceeding, such as the decision of the Commercial Court in Zagreb on the delivery of unified tables of filed creditors' claims and tables of rights to separate satisfaction and exclusion rights, as well as news regarding legal proceedings and relevant decisions of courts in countries in which Agrokor has business operations,. Further, among key subjects are also the beginning of the moveable assets and real estate sales process, conclusion of

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agreements with Madison Pacific Trust Limited by which pledges were established on real estate in connection with the financial arrangement obtained in June, the beginning of the process of payment of a portion of claims of small, middle and large suppliers, as well as taking measures of financial and operational restructuring in Bosnia and Herzegovina, recapitalization of the company Konzum d.o.o. Sarajevo and a number of various subjects.

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