

## RECENT DEVELOPMENTS AROUND AGROKOR

A notable event on the Croatian financial market this year has been the financial turmoil around Agrokor d.d., the largest privately owned company in Croatia and one of the leading retailers and agricultural companies in Southeast Europe with over 60,000 employees and 30+ subsidiaries. The material parts of Agrokor's business are located in Croatia, Slovenia, Serbia and Bosnia and Herzegovina. Wolf Theiss has offices in all these jurisdictions.

Below is a short overview of some of the relevant information around the recent developments. The overview is prepared based solely on the information obtained from public sources. Wolf Theiss does not advise or is otherwise engaged by Agrokor. This material is not intended to represent any investment advice nor recommendation to act in any particular manner in respect of the information contained therein.

### BACKGROUND

The concerns around Agrokor started when Moody's downgraded Agrokor's rating from B2 to B3 in early January 2017. It was followed by Agrokor cancelling the syndication initiated in the fall of 2016 involving BNP Paribas, Credit Suisse, Goldman Sachs and JP Morgan. This in turn resulted in a significant drop in the price of Agrokor's publicly traded bonds. Also, participations in a PIK loan granted to Agrokor's Dutch parent company for purposes of financing its 2014 acquisition of Slovenian competitor Mercator reportedly trade at only about a quarter of their nominal value.

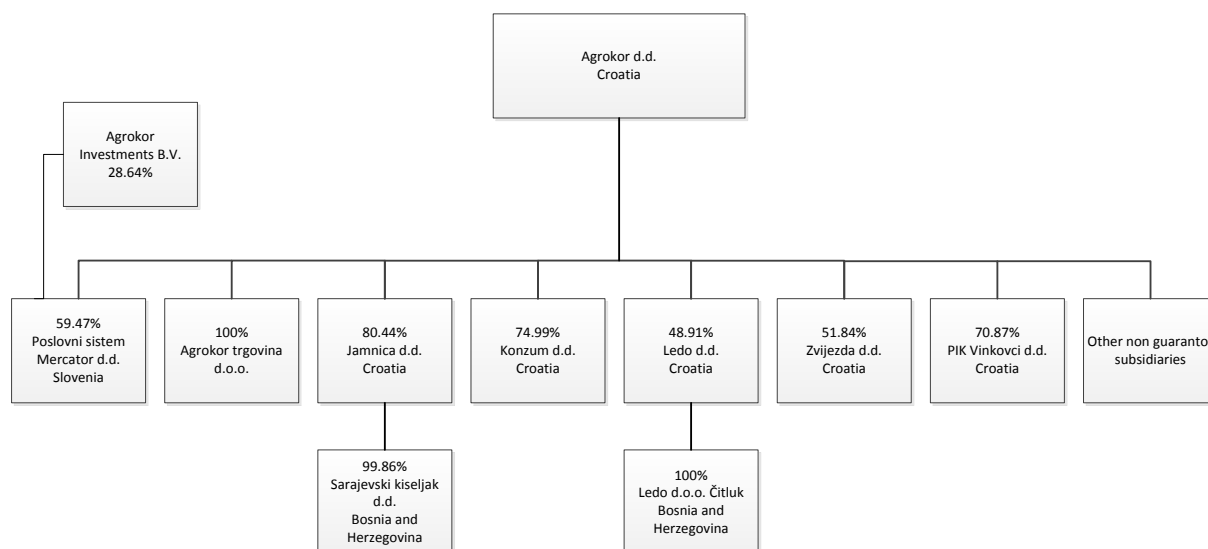
Croatian and Slovenian press covered the developments extensively, going as far as speculating about Agrokor's potential bankruptcy. This even prompted a reaction from Mr Zdravko Marić, the Croatian Minister of Finance and a former Agrokor executive himself, stating that he believes the company is "in good condition" and that he does not see any substantial risks of bankruptcy. The company itself commented that the cancelled syndication will not result in any issues with maintaining its liquidity or impact its financial stability.

### AGROKOR GROUP STRUCTURE

Based on Agrokor's 2015 financial statements, 95.52% of its shares are held by Adria Group Holding B.V. and beneficially owned by Mr Ivica Todorić, who is also the CEO of the company. A share of approximately 2% is held by EBRD.

While Agrokor itself is not listed, some of its major subsidiaries (e.g., Jamnica, Ledo, Konzum, Zvijezda) are listed on the Zagreb Stock Exchange. Mercator is listed on the Ljubljana Stock Exchange.

Based on the offering memorandum for its 2019 bonds, and adjusted for certain publicly available information on changes occurring since, the Agrokor Group structure (listing major subsidiaries only) is as follows:



## FINANCIAL POSITION

The 2015 audited consolidated financial statements of Agrokor are available at: <http://www.agrokor.hr/en/investors/financial-statements/yearly/>.

The most recent available consolidated (unaudited) quarterly statements are available at: <http://www.agrokor.hr/en/investors/financial-statements/quarterly/>.

Based on 3Q consolidated statements, the borrowings of Agrokor stand at HRK 25.55 billion (approx. EUR 3.4 billion), down from 25.85 billion at 31 December 2015. A detailed breakdown is:

	(in '000 HRK) (audited)	
	<b>30.09.2016</b>	<b>31.12.2015</b>
<b>Long-term borrowings</b>		
Bank loans	16,152,742	16,319,771
Bonds	6,651,632	6,808,484
Non-bank loans	44,913	30,362
Finance leases	1,120,247	1,255,091
<b>Total long-term borrowings</b>	<b>23,969,534</b>	<b>24,413,708</b>
Current portion of long-term borrowings	(4,996,089)	(4,732,062)
<b>Short-term borrowings</b>		
Bank loans	1,283,222	1,126,860
Non-bank loans	298,652	303,44
<b>Total short-term borrowings</b>	<b>1,581,874</b>	<b>1,430,300</b>
<b>TOTAL BORROWINGS</b>	<b>25,551,408</b>	<b>25,844,008</b>

Agrokor's debt consists primarily of three Senior Notes and other bilateral facilities with banks and financial institutions.

The Senior Notes are all included in the Global Exchange Market (GEM) of the Irish Stock Exchange, which is not a regulated market. They are subject to extensive covenants and are guaranteed by a number of affiliates of Agrokor. The Senior Notes are subject to New York law and New York jurisdiction. The relevant details are:

Note	ISIN	Issued Amount	Coupon	Maturity
2019 Euro Notes	XS0776111188	EUR 300 million	9.875%	1 May 2019
2020 Euro Notes	XS0836495183	EUR 325 million	9.125%	1 February 2020
2020 USD Notes	USX0027KAG32	USD 300 million	8.875%	1 February 2020

Based on the 2015 financial statements, bilateral facilities consist, amongst others, of:

- €150 million VTB Facility maturing on 23 December 2016 and accruing interest at a rate of EURIBOR plus a margin of 5.10%,
- €210 million consisting of three term loan facilities of €90 million, €60 million and €60 million maturing on 21 June 2017, 21 June 2017 and 21 June 2020, respectively, and accrue interest at rates of EURIBOR plus a margin of 5.00%, EURIBOR plus a margin of 3.62% and EURIBOR plus a margin of 5.00% respectively,
- €600 million Sberbank Facility maturing on 14 March 2021 and accruing interest at a rate of EURIBOR plus a margin of 5.30%.

The 2015 statements include a statement that covenants of these facilities are in line with the 2019 and 2020 Senior Notes and are guaranteed by the following companies: Agrokor-trgovina d.d., Jamnica d.d., Konzum d.d., Ledo d.d., Ledo d.o.o. Čitluk, PIK Vinkovci d.d., Sarajevski kiseljak d.d., Zvijezda d.d.

The above figures do not seem to include a EUR 475 million PIK loan issued to Agrokor's Dutch parent companies which is due in 2018. Based on press reports, some of the above financing arrangements include covenants that trigger immediate repayment if the PIK loan is not timely repaid or refinanced.

Very recent press reports point to an allegedly unknown exposure of EUR 50 million to Luxembourg based Aquarius Plus Investments maturing in August 2017. Aquarius Plus has issued bonds listed on the Cayman Islands Stock Exchange which are secured by this Agrokor loan. Based on the financial statements of Aquarius Plus, the loan is guaranteed by a number of Agrokor's subsidiaries.

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## LEGAL ISSUES

Press reports have suggested concerns around the possibility of Agrokor defaulting on some of its financial obligations, going as far as suggesting bankruptcy as one of the potential outcomes. All these seem to be speculations and based on the publicly available information, no such circumstances have occurred to date.

If Agrokor were to default on its financial arrangements, creditors would most likely need to enforce against its assets in Croatia, as well as other countries in the region where Agrokor has operations. Based on the publicly available information, it is not possible to ascertain to which extent the bilateral facilities are secured and over which assets. In any case, enforcement of both secured and unsecured obligations in Croatia generally requires court involvement and follows a structured process; creditors are not allowed to simply take over Agrokor's assets in exchange for their obligations. Also, uncertainties with enforcement of a judgment of the New York court cannot be excluded; in the absence of any applicable international treaties, recognition and enforcement of such judgment is conditional upon factual reciprocity. While the national law contains a rebuttable presumption that such reciprocity exists, to our knowledge there are no comparable cases where New York judgments were indeed enforced in practice.

In case of a wider default, a bankruptcy filing may become necessary. In order to prevent such a scenario, Agrokor may file for the so-called pre-bankruptcy settlement procedure, a court-administered negotiated settlement process. Croatian law pre-bankruptcy settlement is similar to the US Chapter 11 process, where the existing management of the debtor attempts to secure a negotiated settlement with its creditors. A maximum window of 210 days is envisaged for the completion of the process; if a settlement is not reached, the company generally goes into bankruptcy.

Bankruptcy typically involves a receiver appointed by the court, while in practice only in exceptional cases does the management of the company remain in place. Bankruptcy usually ends either with the liquidation of the company's assets; the receiver typically sells the assets in a public auction process, either individually or as one or more bundles. Restructuring remains an option throughout the bankruptcy process, and it typically involves creditors taking over the equity and assuming the management of the company. In fact, some of the largest bankruptcies in Croatia have been resolved in such court orchestrated restructurings, including the largest Croatian DIY retailer and several shipyards. Taking into account the number of creditors and the complexity of the financial arrangements around Agrokor, any such proceeding, if ultimately triggered, is likely to be complex and time consuming, but could provide opportunities to investors.

**ABOUT WOLF THEISS**

Wolf Theiss is one of the leading law firms in Central, Eastern and Southeastern Europe (CEE/SEE). We have built our reputation on a combination of unrivalled local knowledge and strong international capability. We opened our first office in Vienna almost 60 years ago. Our team now brings together over 340 lawyers from a diverse range of backgrounds, working in offices in 13 countries throughout the CEE/SEE region.

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