



BEARSTONE

— GLOBAL —

Agrokor

Report

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1. BACKGROUND

Bearstone Global is pleased to present its report into the Agrokor Group (“The Group”). The Agrokor Group is one of the most recognisable business formations in Croatia, and plays an important role in the whole Balkan region. The Group has been subject to turbulence during the last few years, which had a significant impact on the region’s FMCG sector, along with the Croatian political scene.

The following report was originally published in April 2018, when four scenarios of further development were considered possible. It was updated in August 2018 following a settlement between Agrokor’s creditors, investors and suppliers, which provided further insight into the Group’s future.

2. EXECUTIVE SUMMARY

- Agrokor’s current corporate structure includes a high degree of diversification and obsolete vertical integration. As such, combined with problems of low morale, inadequate business management and nepotism, it is less likely to be attractive for a serious international investor. However, some of its individual subsidiaries may be of interest to investors due to their market position and/or assets owned, e.g. in Konzum’s case, its vast network of retail shops.
- Prior to 04 July 2018 there were four different scenarios for the outcome of the Agrokor crisis: a debt to equity swap and a debt haircut; bankruptcy; the sale of individual Group companies; or the extension of the current government management of the Group. The debt-to-equity swap was seen as the most likely long-term scenario, despite opposition by Agrokor’s suppliers.
- On 04 July 2018 a settlement was agreed upon and accepted by holders of 80% of the debt. The deal includes a debt-to-equity swap as well as loan write-offs to avert bankruptcy.
- Red flag media checks were conducted on five of Agrokor’s most prominent companies. Konzum had the highest negative media exposure regarding the quality of its products, treatment of employees, political protection and its crucial role in the

Agrokor crisis. The remaining screened companies - Jamnica, Ledo, PIK Vrbovec, and Zvijezda – had similarly negative media exposure, and several instances of regulatory breaches and fines were identified.

- Four of the five entities (excepting Konzum, which has recorded significant losses for two consecutive years) declared positive EBITA in 2015, three of them reporting net profits as well. All five companies reported significant net losses at the end of 2016, however, which was attributed in all cases to restructuring and overall group indebtedness. Another possible scenario, as suggested by some of the interviewed experts, is that these values were intentionally tailored to lower the potential final sale price of individual entities in favour of undisclosed interested domestic parties, perhaps even the above-mentioned Borislav Skegro.

3. FINDINGS

3.1 Agrokor Group Background

Agrokor started out as a small private company in 1976. It was founded by Ivica Todorčić and was engaged in the production of flowers and flower seedlings. Its business soon expanded to include the import and export of cereals, oil crops, fruits and vegetables. In 1989, the joint stock company Agrokor was founded. It was not until the end of the civil war in former Yugoslavia that the company really started expanding, and between 1995 and 2017 it grew to become the largest privately-held company in Croatia and one of the leading companies in the region, employing nearly 60,000 people and reaching record revenues at the end of 2015 of around EUR 6.42 billion.

However, in its 2016 annual report, the company restated its total revenue for 2015 as around EUR 6.25 billion, decreasing to approximately EUR 6 billion in 2016. At the same time, the company reported major losses: EUR 0.47 billion in 2015 and EUR 1.44 billion in 2016. Figures from September 2016 also showed that Agrokor had debts of EUR 3.5 billion to creditors, and EUR 2.2 billion to suppliers. In early April 2017, Todorčić handed control of the Group to the Croatian state under a new law, the “Act on Special Administration Procedure for Companies of Systemic Importance for the Republic of Croatia” (Lex

Agrokor), which was designed to prevent the total collapse of a company that was considered systemically important to the country. The Group entered state-run administration under this law, as it was unable to service its debts to banks. Since then, there has been much controversy in Croatia regarding the root causes of Agrokor's insolvency.

Within its portfolio, the Agrokor Group has companies engaged in food production, frozen foods, food processing, soft drinks and water production, as well as retail and wholesale trade companies for FMCG and other goods, with companies in the latter sectors contributing most of Agrokor's revenue. The Group also owns companies engaged in energy production and trade, travel and hospitality, information technology, and even one private health clinic.

As the Group's latest published annual report is from 2016, only the Agrokor Group as of 31 December 2016 could be ascertained. It was not possible to map out the exact present corporate structure. For example, according to Agrokor d.d.'s 2016 annual report, Konzum d.o.o. Sarajevo in Bosnia and Herzegovina was its wholly-owned direct subsidiary. However, searches at the Bosnia and Herzegovina trade register revealed that Konzum d.o.o. Sarajevo is currently owned by Agrokor d.d. (~27%), Sarajevski Kiseljak d.d. (~33.7%) and Ledo d.o.o. Čitluk (~38.3%). Even though both Sarajevski Kiseljak and Ledo d.o.o. Čitluk are both part of the Agrokor Group, it is clear that Konzum d.o.o. Sarajevo is no longer a wholly-owned direct subsidiary. The 159 companies identified as being part of the Agrokor Group on 31 December 2016 have been included in a table in [Annex 1: Agrokor Group Companies](#). It should be noted that this list may not be complete, as there is no list containing all subsidiaries and affiliates of Agrokor's direct subsidiaries and affiliates.

3.2 **Agrokor's Bankruptcy Proceedings**

On 21 February 2018 the Extraordinary Commissioner for Agrokor, Ante Ramljak issued his resignation and Fabris Peruško was appointed as the new Extraordinary Commissioner. Agrokor's Draft Settlement Plan from 20 December 2017 was supported by the temporary creditors council. The key points of this settlement plan included removing old

shareholders of Agrokor d.d. from the new Group, as well as restructuring old debt into a combination of reinstated debt and equity. Creditors were to become the new owners of 100% of the business and would have full operational control.

On 15 January 2018, the Commercial Court in Zagreb issued a 636-page ruling on verified and contested claims of the Agrokor Group. Over 400 pages in the ruling contain tables of verified and contested claims. The ruling states that, in addition to the claims verified by the Extraordinary Commissioner in the amount of EUR 5.43 billion and those contested in the amount of EUR 2.15 billion, creditors have mutually contested claims in the amount of more than EUR 1.36 billion. Individual and joint guarantees contested by other creditors exceed EUR 13.23 billion. The total sum of verified primary claims at present, prior to the completion of civil court proceedings, amounts to EUR 4.07 billion.

On 26 January 2018, the Commercial Court in Zagreb issued a ruling on the formation of five groups of creditors.

Group A comprises creditors whose claims bear secured rights, i.e. secured creditors. The existence of secured rights, in particular securities such as mortgages on real estate or share pledges, differentiates the legal position of such creditors from all other groups, providing them with additional recovery rights. This group corresponds to the secured creditors group in the Interim Creditors' Council.

Group B consists of creditors who are holders of bonds issued by the debtor.

Group C comprises creditors whose claims have been secured by issued guarantees, co-debtorships (joint guarantees) and recourse debtorships from not less than five companies related to or subsidiaries of the debtor, which are subject to the extraordinary administration proceedings and had participated in financing the debtor with seniority rights in recovery of up to EUR 1.06 billion (\$1.3 billion) as of 8 June 2017.

Group D contains creditors in the same position as those in Group C, but which had not participated in financing the debtor with seniority rights in recovery of up to EUR 1.06 billion as of 8 June 2017.

Group E is made up of creditors (including suppliers) who have neither issued guarantees in their favour, nor any claim against co-debtorship or recourse debtorship.

3.3 Pre-Settlement Scenarios and Settlement

The findings in this section represent a collection of information obtained through OSINT research in Croatia and HUMINT information gathered through expert sources. The list of sources and their full comments are included in [Annex 2: HUMINT](#).

3.3.1 Background and Scenarios Prior to the Settlement

In assessing the resolution of Agrokor's crisis and finding the best possible way to manage such a massive business structure and its debts, human sources agreed that the Group is a complex structure that cannot be handled in a simple manner. First and foremost, its corporate design represents a pure vertical integration, with a high degree of interdependency among the companies, since the business strategy employed by the management was to bind the companies to each other. Therefore, as a whole, Agrokor would be unlikely to interest a serious international investor. Additionally, Agrokor is replete with multiple and compounding issues related to low morale, human resource practices of employment and advancement based upon nepotism rather than merit, and the negative association of the Group with its ultimate beneficial owner, Ivica Todorić. An additional issue that adds challenges and complexity to Agrokor's situation is that, due to the ongoing debt crisis, its assets in Serbia and Slovenia have been seized by one of its creditors, Sberbank.¹

Agrokor's companies are divided into three main segments – retail, agriculture and production, with each of them possessing distinct strengths and weaknesses. A reorganisation of Agrokor's corporate structure which separates one segment from the Group seems to be a likely outcome.

¹ <http://www.index.hr/vijesti/clanak/ruski-sberbank-ne-zeli-otkriti-planove-oko-zapljene-mercatorovih-dionica/1009581.aspx>

The retail sector is the most visible business unit, especially given that it relies heavily on the supermarket chain brands of Konzum, Mercator and Idea (Serbia). Jointly, they possess a significant market share in the retail sector in Southeast Europe, although due to the recent lack of desirable products in Konzum's offering, its market power has diminished significantly. By October 2017, Konzum had been forced to shut down 105 of its retail stores in Croatia.²

The retail sector's advantages are its market share - although this is decreasing - and its technological development. Its additional strategic potential is its consolidative role in Southeast Europe. The sector's weaknesses are bad management and its negative public image, attributed almost in its entirety to Konzum, whose standalone red flag issues have been set out in Section [3.2.1 Konzum](#). The retail sector would require a significant amount of investment in order to optimise its costs, and would be required to undergo serious restructuring measures. One widely mooted solution would be to decrease its market volume, consolidate, and redefine its growth potential.

The agricultural sector is headed by the brands Belje and PIK Vrbovec, which are considered to be among Agrokor's strengths, and demonstrate the highest production potential. However, despite receiving a significant amount of investment, these brands are presently uncompetitive due to a lack of technological development and innovation. Furthermore, all companies in Agrokor's agricultural segment are heavily indebted.

The production segment is also one of Agrokor's positive sectors, especially due to popular brands such as Ledo and Jamnica. The segment has high profitability, recognisable brands, and strong market shares; however, due to Agrokor's vertical integration, each of the production companies has a single distribution channel, thereby limiting their true market potential.

² <http://www.index.hr/vijesti/clanak/konzum-zatvara-105-trgovina-ali-zaposljava-prodavace-skladistare-mesare-vozace/1004279.aspx>

Prior to the 04 July 2018 settlement the local media has pointed out that the potential scenarios are debt conversion or a debt to equity swap, bankruptcy, the sale of individual Agrokor companies, or the continuation of the government's present role under Lex Agrokor³. Expert human sources agreed that a combination of debt-to-equity conversion and debt reduction is the most likely scenario, maintaining the Group's corporate structure while diluting its ownership.

3.3.2 The Settlement Vote

On 04 June 2018, in the largest hearing in Croatian history, more than 3000 creditors, representing 95 percent of the Group's undisputed debtholders gathered in the Dražen Petrović Basketball Arena in Zagreb before judge Nevenka Siladi Rstic of the Zagreb Commercial Court and voted in favour of the settlement deal.

The first vote provided creditors with disputed claims the right to vote on the settlement deal under the condition of being physically present.

The condition for the settlement vote to be deemed valid was that creditors with claims amounting to at least two thirds of the total claims' value voted in support.

At the time of the vote the total amount of undisputed claims stood at HRK 25.3 billion (EUR 3,4 billion) and additionally creditors with disputed claims of HRK 8 billion (EUR 1,07 billion) were present or represented. Out of a total of HRK 33.7 billion (EUR 4,54 billion) worth of claims (disputed and undisputed) creditors with a total of HRK 31.8 billion (EUR 4.29 billion) in claims had voted. The condition for the validity of the vote, which was that the creditors entitled to HRK 22.5 billion (EUR 3.03 billion) in debt voted in support of the agreement, has been met.

3.3.3 The Settlement

³ <https://slobodnadalmacija.hr/novosti/biznis/clanak/id/511318/agrokor-u-rukama-vjerovnika-prodaja-tvrtki-ili-stecaj-ovo-su-scenariji-koji-ocekuju-koncern-ciji-gubici-se-broje-u-milijardama>

The 7,300 page settlement plan will put the company in hands of creditors and bondholders. The provisions of the deal include a debt-to-equity swap and loan write-offs to avert bankruptcy.

Agrokor's largest single creditor, Sberbank with loans will become the company's largest shareholder with a 39.2 percent stake, bondholders will own 25.9 percent, Croatian banks - 15.3 percent and VTB will end up with a 7.5 percent stake, while the rest will be divided among the suppliers.

The current management will hand the company over to shareholders during a transitional period which is expected to last a few months. After that shareholders will appoint a new management and agree on new strategy for the company.

3.4 **Agrokor Group Companies of Potential Interest to Investors**

The most prominent companies in the Agrokor Group that could be of great interest to potential investors are Jamnica, Ledo, Zvijezda, PIK Vrbovec and Konzum. Background information on each of these companies, their financial KPIs and immediate red flags relating to each has been set out in the following sections.

3.4.1 **Konzum**

3.4.1.1 *Company Profile*

Konzum is Croatia's largest FMCG retail chain. According to its 2016 annual report, the company operated a chain of 700 retail stores, as well as 68 cosmetics and toiletries stores. As such, the total retail space of the company was over 340,000m². In the same annual report, the company recorded a 2% decrease in the number of customers, which was greatly attributed to by migration, which increased by 22.9% in Croatia in 2016. However, the average customer spent 1.6% more in 2016 than in 2015 at Konzum's stores. The average number of employees of Konzum in 2016 was 11,500.

As on 31 December 2016, Konzum d.d. was owned by Agrokor d.d. (75.37%), Jamnica d.d. (11.1%) and other minority shareholders (13.53%).

On 31 December 2016, Konzum's subsidiaries and affiliates included:

• Idea d.o.o. (Serbia, 100%)	• PIK Vrbovec – mesna industrija d.d. (100%)
• Euroviba d.o.o. (94.55%)	• Žitnjak d.d. (89.4258%)
• Krka d.o.o. (82.4084%)	• Multiplus Card d.o.o. (75%)
• Projektgradnja d.o.o. (7.367%)	• Ambalažni servis d.o.o. (100%)
• Velpro-centar d.o.o. (100%)	• Aurem Stella d.o.o. (100%)
• Latere Terram d.o.o. (100%)	• PET-PROM ulaganja d.o.o. (100%)
• Jolly projekti jedan d.o.o. (100%)	• Terra Argenta d.o.o. (95%)
• Bio-zone d.o.o. (100%)	

However, at the time of publishing of the annual report (4 October 2017), its shareholding in PIK Vrbovec – mesna industrija d.d. had dropped to 87.07% and its shareholding in Žitnjak d.d. had dropped to 80.43%.

3.4.1.2 Financials

KPI	2016 (HRK '000)	2015 (HRK '000)	2014 (HRK '000)
Fixed assets	6,296,508	7,398,142	8,216,555
Liquid assets	1,941,779	2,840,446	3,294,637
Deferred income	-7,672,384	-5,603,063	-3,083,198
Long-term liabilities	2,312,179	2,289,739	2,426,553
Short-term liabilities	13,341,872	12,986,430	12,167,837
Total revenue	10,563,744	10,504,846	-
EBITA	-1,849,182	-1,138,871	-
NET profit/loss	-2,153,829	-1,503,816	-

3.4.1.3 Red Flags

3.4.1.3.1 Information from Official Sources

According to Konzum's 2016 annual report, the company is involved in two lawsuits in the Republic of Serbia. In one, it is being sued by Sberbank d.d. Zagreb which launched

enforcement proceedings, claiming Konzum's shares in Idea d.o.o. as collateral. Konzum filed an appeal to the first instance ruling.

Banka Intesa a.d. Beograd filed a debt enforcement proceeding against Konzum, Jamnica, Zvezda, Agrokor Trgovina and PIK Vrbovec, requesting payment of debt for a loan of EUR 15,391,555.89 issued on 31 January 2017.

Further, the company is exposed to Agrokor's bankruptcy as it acted as one of the guarantors for various loans obtained by Agrokor prior to the bankruptcy proceedings and after they were initiated.

According to the Commercial Court of Zagreb's ruling on verified and contested creditors' claims from 15 January 2018, a large portion pertain directly to Konzum.

3.4.1.3.2 *Media and Internet*

Issues in Bosnia and Herzegovina

Konzum's operations in Bosnia and Herzegovina were also affected by Agrokor's bankruptcy, as it owed its local suppliers around EUR 17.3 million.⁴ In May 2017, Konzum's debts towards Bosnian suppliers was estimated at EUR 70 million, according to Agrokor's former Extraordinary Commissioner Ante Ramljak.⁵ Some estimates of Konzum's debts even mentioned amounts of up to EUR 125 million.⁶ Given its liabilities, there was speculation that Konzum's operations in Bosnia and Herzegovina would be taken over by

⁴ <http://www.index.hr/vijesti/clanak/konzumovi-dobavljaci-iz-bih-jos-cekaju-odluku-o-isplati-dugova/988455.aspx>

⁵ <http://www.index.hr/vijesti/clanak/ramljak-ponovno-ide-u-sarajevo-konzum-dobavljacima-u-bih-duzan-gotovo-70-milijuna-eura/972305.aspx>

⁶ <http://www.index.hr/vijesti/clanak/konzum-tvrtkama-u-bih-duguje-125-milijuna-eura-vijece-ministara-trazi-susret-s-vodstvom-/961896.aspx>

the Slovenian retail chain Mercator.⁷ At the same time, the Bosnian Finance Minister Zoran Tegeltija publicly called for Konzum's eviction from Bosnia and Herzegovina.⁸

It should be noted that since Konzum's entry into the Bosnian market and its expansion in 2009, there was fear that due to the import of Croatian goods the local production sector would be destroyed.⁹ The fear was most prominently expressed in 2014 when Konzum was to take over Mercator, which would have given the company a monopoly position in Bosnia and Herzegovina.¹⁰

3.4.1.3.3 *Political Associations*

Konzum, due to its association with Todorić, was widely perceived as a company enjoying political protection and immunity from judiciary and regulatory investigations.¹¹ Since 2010, Konzum was reported to not be paying its suppliers, which presently poses one of the main issues in Agrokor's bankruptcy. Konzum was especially criticised for paying EUR 300,000 to two popular Turkish actors to act in its advertisements, while leaving its suppliers empty-handed. The matter also reached the Croatian parliament, where it was used by the opposition Social-Democratic Party (SDP), which claimed that Konzum's ultimate owner was the government's oligarch.¹² The employment of the Turkish actors was also cause for criticism of Konzum, as they worked without employment permits

⁷ <http://www.index.hr/vijesti/clanak/rasprava-u-bih-hoce-li-mercator-preuzeti-poslovanje-konzuma/974028.aspx>

⁸ <http://www.index.hr/vijesti/clanak/konzum-u-bih-propada-a-ministar-financija-porucuje-sto-prije-konzum-ode-bit-ce-svima-bolje/973749.aspx>

⁹ <http://www.index.hr/vijesti/clanak/lijanovic-konzum-ce-unistiti-domacu-proizvodnju-u-bih/447325.aspx>

¹⁰ <http://www.index.hr/vijesti/clanak/platio-sam-da-budem-na-policama-konzuma-a-todoric-me-stavio-u-razinu-cipela/733850.aspx>

¹¹ <http://www.index.hr/vijesti/clanak/policija-i-drzavni-inspektorat-stite-todorica-smije-li-itko-dirnuti-u-svemocnog-tajkuna/526802.aspx>

¹² <http://www.index.hr/vijesti/clanak/monopol-ivice-todorica-tema-sabora-ima-milijune-za-turske-glumce-a-nema-za-dobavljacke-/522909.aspx>

issued by the Croatian authorities, adding to the argument that the company and Todorić were above the law.¹³

In March 2017, Ovum, a company to which Konzum owed HRK 9.5 million, initiated bankruptcy proceedings at the Zagreb Trade Court. Konzum requested the exclusion of Judge Mislav Kolakušić who took over the case, claiming that he was approaching the matter subjectively and publicly denouncing the current bankruptcy legislation.¹⁴ In April 2017, Kolakušić was excluded from the case, after which he accused Konzum of possibly exerting political influence, placing itself above the judiciary and the law.¹⁵ Since the beginning of the bankruptcy proceedings before the Zagreb Trade Court, eggs produced by Ovum were withdrawn from Konzum's stores and replaced by eggs imported from San Marino.¹⁶

Todorić's political connections and influence for the benefit of his companies, including Konzum, were almost always mentioned when the local media reported on Agrokor's activities. In March 2013, the Croatian Agency for the Management of State Assets purchased 1.03 percent of Konzum's shares, a move that was allegedly aimed at cooperating with Todorić to squeeze out minority shareholders. In return, Konzum would apparently undertake investments in order to help the state budget.¹⁷ Extensive associations with local politicians benefited Konzum in receiving prime real estate for its stores, such as one location in Dubrovnik via the intervention of its Mayor and the Chairman of the City Council.¹⁸

¹³ <http://www.index.hr/vijesti/clanak/index-doznaje-onur-i-seherezada-bez-radne-dozvole-snimali-reklamu-za-todorica/526648.aspx>

¹⁴ <http://www.index.hr/vijesti/clanak/konzum-i-dalje-ne-placa-tvrtka-ovum-ne-odustaje-od-stecaja/964142.aspx>

¹⁵ <http://www.index.hr/vijesti/clanak/sudac-kolakusic-konzum-ima-vise-utjecaja-na-sudstvo-nego-zakon-i-pravda/964369.aspx>

¹⁶ <http://www.index.hr/vijesti/clanak/konzumova-osveta-na-policama-vise-nema-jaja-tvrtke-koja-je-trazila-svoj-novac/964953.aspx>

¹⁷ <http://www.index.hr/vijesti/clanak/objektiv-agencija-za-upravljanje-drzavnom-imovinom-kupila-dionice-konzuma/668003.aspx>

¹⁸ <http://www.index.hr/vijesti/clanak/agrokoru-pomogli-vlahusic-hns-i-murrati-sdp-dubrovcani-umjesto-crkve-docekali-konzum/647462.aspx>

In 2012, Konzum was associated with Croatian public enterprises, which were handing out coupons to their employees to purchase goods in Konzum's supermarkets, instead of paying them holiday bonuses. This led to reports that the state was thereby Todorčić with HRK 5.5 million.¹⁹ The issue caused a strong reaction from competitors such as Spar, Kaufland and Billa, who claimed that their offers were never taken into consideration by the public enterprises, despite being better than Konzum's offers.²⁰ Konzum was accused of breaching the Law on Checks, as it was using the coupons for the payment of services; however, according to media reports, there was no political will to impose any sanction.²¹ One such example was the payment for public waste disposal services in Sinj.²² In February 2012, the State Inspectorate began an investigation into the companies handing out Konzum's coupons to their employees. However, it was not indicated whether Konzum was also included in the investigation.²³

3.4.1.3.4 *Other Issues*

During Agrokor's demise, significant media attention was given to the working conditions in Konzum, as there were reports on employees' social media posts relating to excessive overtime work, unpaid wages, and possible workplace bullying.²⁴ Occasionally, whistleblowers informing the Work Inspectorate about mistreatment of employees would be immediately dismissed by the company's management. Most of the cases where employees complained to the Inspectorate regarding Konzum related to breaches of the Labour Law regarding working shifts, unpaid overtime labour and the allocation of free days.

¹⁹ <http://www.index.hr/vijesti/clanak/umjesto-da-bozicnice-isplacuje-u-bonovima-hepu-je-bolje-da-radicima-za-isti-iznos-smanji-ratu-struje/618279.aspx>

²⁰ <http://www.index.hr/vijesti/clanak/trgovacki-lanci-o-kbonovima-u-drzavnim-tvrtkama-nikada-nista-a-nudimo-sve-da-dobijemo-taj-posao-/619956.aspx>

²¹ <http://www.index.hr/vijesti/clanak/konzum-zasad-izbjegao-kaznu-placanje-u-bonovima-je-lakrdija-platnog-prometa/603482.aspx>

²² <http://www.index.hr/vijesti/clanak/index-doznaje-todorici-bonovima-konzuma-placao-odvoz-smeca-u-sinju/608093.aspx>

²³ <http://www.index.hr/vijesti/clanak/krenula-istraga-o-isplati-placa-u-konzumovim-bonovima-zasto-su-tvrtke-bile-prisiljene-na-to/601535.aspx>

²⁴ <http://www.index.hr/vijesti/clanak/bivsi-skladistar-konzuma-porucio-todoricu-ovo-ti-zelim-vise-od-robije/1001465.aspx>

Nevertheless, the company had been facing regulatory charges by the Ministry of Labour since March 2015.²⁵

Besides its role in the current Group crisis, Konzum has also received negative publicity for the following issues:

- In August 2017, Konzum was accused of stealing Amazon's trademark in a recent marketing campaign.²⁶
- In August 2014, Konzum and Dukat were sanctioned by the Agency for the Protection of Market Competition for price fixing. They had reportedly concluded an agreement whereby Konzum would sell Dukat's products for a minimal price determined by Dukat.²⁷
- In June 2014, Konzum was mentioned by the Croatian media for breaching laws by advertising tobacco products. Despite the lack of an official investigation before the publication, it was speculated that Konzum was enjoying political protection, enabling it to act contrary to the local legislation.²⁸
- In April 2013, Konzum won a procurement tender for the supply of soup to student centres. However, the decision was contested by Podravka, claiming that Konzum lacked adequate production and distribution certificates. The Procurement Tender Control Commission agreed to the claims, sanctioned Konzum, cancelled the decision, and ordered the tender to be repeated.²⁹
- In January 2011, Konzum was accused of unfair competition and misuse of its distribution power in Croatia. The cause was the sale of the books in Konzum's stores published by Znanje, another member of the Agrokor Group. Other

²⁵ <http://www.index.hr/vijesti/clanak/upozorila-sam-inspektora-da-konzum-krsi-zakon-pa-sam-dobila-otkaz/811199.aspx>

²⁶ <http://www.index.hr/vijesti/clanak/je-li-konzum-pokrao-logo-najpoznatije-trgovine-na-svijetu/987907.aspx>

²⁷ <http://www.index.hr/vijesti/clanak/todricevom-konzumu-zbog-zabranjenog-sporazuma-s-dukatom-600000-kuna-kazne/766544.aspx>

²⁸ <http://www.index.hr/vijesti/clanak/kada-treba-kazniti-todricev-konzum-u-institucijama-drzave-nastaje-kaos/751631.aspx>

²⁹ <http://pdf.dkom.hr/11101.pdf>

publishers claimed that their publications could not access Agrokor's distributive network.³⁰

- Konzum was also negatively perceived by the Croatian public, as it was speculated that it enjoyed the protection of the tax inspectorates, which refused to publish any information on whether the company was ever inspected and whether any fines were ever imposed.³¹
- The quality of the products found in its stores was also questioned. There had been several reports on Konzum selling worm-infested meat and rotten vegetables, which formed a negative public perception.³² On several occasions, Konzum was accused by consumers of forging the expiration dates of food products, in order to keep them on sale for longer.³³ Additionally, in April 2011, Konzum was reported to be selling potentially health-endangering tuna.³⁴
- The company's pricing policies were heavily criticised, as the prices of products varied across Croatia.³⁵

3.4.2 Jamnica

3.4.2.1 Company Profile

Jamnica is one of the leading regional producers and distributors of bottled mineral water. Under its portfolio, the company also has subsidiaries which produce soft drinks and also wine and champagne.

³⁰ <http://www.index.hr/vijesti/clanak/todoric-unistava-izdavace-i-knjizarske-mreze/531732.aspx>

³¹ <http://www.index.hr/vijesti/clanak/tko-je-ikad-vidio-porezne-inspektore-u-konzumu/691354.aspx>

³² <http://www.index.hr/vijesti/clanak/foto-sto-se-prodaje-u-konzumu-meso-puno-crva-trulo-povrce/988825.aspx>

³³ <http://www.index.hr/vijesti/clanak/otkrila-da-su-u-konzumu-lazirali-datum-trajnosti-proizvoda/724132.aspx>

³⁴ <http://www.index.hr/vijesti/clanak/ministarstvu-trebalo-vise-od-mjesec-dana-da-javnost-obavijesti-da-ne-smije-jesti-konzumovu-k-plus-tunu/547866.aspx>

³⁵ <http://www.index.hr/vijesti/clanak/lidl-krenuo-u-rat-s-konzumom-jedna-zemlja-jedna-cijena/832956.aspx>

According to its 2016 annual report, the company recorded a 4% drop in total revenue. However, revenue from sales went up by 0.1%. Material costs went down by 4%, but total liabilities increased by 38%, mainly due to recalculated liabilities towards Group companies. The gross margin increased by 4% to a total of 44% in 2016. Operating profit increased by 50% compared to 2015 due to restructuring.

According to information from the Croatian Central Depository and Clearing Company, the current top 10 shareholders of Jamnica d.d. are: Agrokor d.d. (75.92%), CERP/Republic of Croatia (5.56%), Bahovec d.o.o. (1.69%), Privredna Banka Zagreb d.d. (1.36%), KBZ d.d. (0.72%), Zagrebačka banka d.d. (0.66%), Erste & Steiermarkische Bank d.d. (0.58%), Addiko Bank d.d. (0.55%), Agram Invest d.d. (0.51%) and Privredna Banka Zagreb d.d. (0.49%). The remaining shares are held by other minority shareholders.

On 31 December 2016, the company had the following subsidiaries:

- Mladina d.d. (60.89%)
- Sarajevski Kiseljak (Bosnia, 99.86%)
- Fonyódi Ásványvíz Kft (Hungary, 100%)
- Jamnica mineralna voda d.o.o. (Slovenia, 100%)
- Mg Mivela d.o.o. (Serbia, 100%)
- Roto dinamic d.o.o. (100%)
- Agrokor Zagreb d.o.o. (99.86%, indirectly through Sarajevski kiseljak d.d.)
- DB Kantun veleprodaja d.o.o. (100%, indirectly through Roto dinamic d.o.o.)

3.4.2.2 Financials

Jamnica d.d.

KPI	2016 (HRK '000)	2015 (HRK '000)	2014 (HRK '000)
Fixed assets	963,522	1,048,627	966,539
Liquid assets	1,034,339	1,331,185	1,103,394
Deferred income	1,025,219	1,414,866	1,223,360
Long-term liabilities	168,325	48,202	33,861
Short-term liabilities	563,032	636,394	569,729
Total revenue	1,500,626	1,557,455	-
EBITA	-284,321	266,265	-
NET profit/loss	-374,989	268,877	-

Agrokor

Consolidated

KPI	2016 (HRK '000)	2015 (HRK '000)	2014 (HRK '000)
Fixed assets	918,584	936,911	911,195
Liquid assets	1,497,107	1,838,750	1,406,990
Deferred income	-	-	-
Long-term liabilities	173,787	54,563	65,143
Short-term liabilities	1,009,473	1,077,070	834,991
Total revenue	2,728,476	2,649,078	-
EBITA	-255,610	272,983	-
NET profit/loss	-358,964	303,650	-

3.4.2.3 Red Flags

3.4.2.3.1 Information from Official Sources

According to its 2016 annual report, the company is involved in four major legal disputes. One was filed on 26 June 2017 by Sberbank d.d. Ljubljana for debt repayment, for which the bank demanded 100% of Jamnica d.d.'s shares in Jamnica mineralna voda d.o.o. The second was filed on 29 June 2017 by Sberbank d.d. Ljubljana, which requested 100% of Jamnica d.d.'s shares in Mg Mivela d.o.o. for the same credit line as mentioned above. These two cases are before the Municipal court in Ljubljana, Slovenia. In Belgrade, Serbia, Sberbank d.d. Zagreb filed a claim relating to a different credit line, also requesting 100% of Jamnica d.d.'s shares in Mg Mivela d.o.o. as collateral. Finally, Banka Intesa a.d. Beograd also filed a claim for a debt of EUR 15.39 million. No information regarding the current status of these claims was available at the time of writing.

Jamnica is exposed to Agrokor's bankruptcy as it acted as one of the guarantors for various loans obtained by Agrokor, both prior to the bankruptcy proceedings and after they were initiated.

According to the Commercial Court of Zagreb's ruling on verified and contested creditors' claims from 15 January 2018, a large portion pertain directly to Jamnica.

Agrokor

3.4.2.3.2 Media and Internet

As part of the Agrokor Group, Jamnica's media exposure was largely limited to the issues surrounding the Group's performance and the ongoing matter of bankruptcy. Unlike Konzum, there have been no articles about Jamnica failing to pay its suppliers or being mentioned for enjoying a high degree of political support. Jamnica was in fact noted as one of Agrokor's creditors with EUR 140,000, whereas its debts were to Group companies amounted to EUR 3.4 million.³⁶ Several articles noted that Jamnica was used by Agrokor as a vessel for issuing guarantees, vouching with its assets.³⁷ The effect on Jamnica was that its shares in Sarajevski Kiseljak were seized by Russia's Sberbank, after the bank was authorised to do so by Kiseljak Municipal Court in October 2017.³⁸ Another effect of the Agrokor issue on Jamnica was that its share value dropped on the Zagreb Stock Exchange. The company's management accused the media of leading a smear campaign, as negative publicity led to the drop of its share value.³⁹ In December 2017, Lidl appeared as an interested party in acquiring Jamnica.⁴⁰

The following red flag issues were found on Jamnica as a separate entity:

- In November 2016, Jamnica was accused of extracting more water from the Sveta Jana spring than initially permitted in the concession agreement with the state. The Croatian Minister for Finance saw nothing irregular and did not order an investigation on potential concession breaches.⁴¹ Nevertheless, there was also some

³⁶ <http://www.index.hr/vijesti/clanak/jamnica-belje-i-pik-vinkovci-iznijeli-podatke-o-jamstvima-agrokoru-radi-se-o-desecima-milijardi-kuna/977006.aspx>

³⁷ <http://www.index.hr/vijesti/clanak/hoce-li-adris-izgubiti-milijardu-kuna-koje-je-dao-todoricu/974335.aspx>

³⁸ <http://www.index.hr/vijesti/clanak/sberbanci-odobrena-ovrha-nad-firmom-u-vlasnistvu-jamnice-u-bih/1001264.aspx>

³⁹ <http://www.index.hr/vijesti/clanak/jamnica-i-ledo-dionice-su-nam-srusili-mediji-koji-pisu-negativno-o-todoricu/960200.aspx>

⁴⁰ <http://www.index.hr/vijesti/clanak/jana-i-jamnica-prodaju-se-u-lidlu/1015120.aspx>

⁴¹ <http://www.index.hr/vijesti/clanak/index-dobio-potvrdu-todoriceva-jamnica-godinama-crpi-vise-vode-nego-sto-smije/935155.aspx>

suspicion that Jamnica was misleading the public into believing that they were purchasing genuine spring water.⁴²

- In November 2016, Jamnica was accused of reducing its workforce through illegal dismissals. The matter was negatively perceived in the Croatian public, since the company was generating profits due to its dominant market position.⁴³
- In November 2013, Jamnica was accused by the Youth Employment Association Breza of stealing its marketing campaign.⁴⁴
- Jamnica was mentioned in the context of possibly having political association since, in May 2012, it established a beverage production partnership with a company owned by the Istria county Chairman Ivan Jakovčić.⁴⁵

3.4.3 Ledo

3.4.3.1 Company Profile

Ledo d.d. is one of the leading regional producers and distributors of ice cream and frozen food products. According to its 2016 annual report, it recorded a 2% increase in ice cream sales in 2016, whilst the sale of frozen food recorded an unspecified slight drop, mainly due to increased costs of fish on the global market, in turn due to a decreased total catch.

Operational profit in 2016 was EUR 21.54 million, which was an increase compared to the recorded EUR 17.51 million in 2015. Total expenditure increased by 45%, due to restructuring and liabilities towards Group companies.

⁴² <http://www.index.hr/vijesti/clanak/istrazivanje-sto-zapravo-pijemo-od-vode-koja-sluzi-za-pranje-pogona-i-boca-rade-se-sokovi/936125.aspx>

⁴³ <http://www.index.hr/vijesti/clanak/doznajemo-ipak-je-istina-jamnica-radnicima-dijeli-otkaze/930024.aspx>

⁴⁴ <http://www.index.hr/vijesti/clanak/teske-optuzbe-janina-reklamna-kampanja-je-ukradena/711655.aspx>

⁴⁵ <http://www.index.hr/vijesti/clanak/koalicija-jakovcictodoric-gasi-zedj-u-hrvata-celnik-idsa-i-jamnica-ce-zajedno-proizvoditi-pice/615018.aspx>

On 31 December 2016, the company's shareholding structure was: Agrokor d.d. (48.91%), minority shareholders (3.68%), pension funds (26.5%) and other unspecified shareholders (20.9%).

It also had the following subsidiaries:

- Frikom d.o.o. (Serbia, 100%)
- Irida d.o.o. (unspecified)
- Ledo d.o.o. (Montenegro, unspecified)
- Ledo Kft (Hungary, unspecified)
- Ledo d.o.o. (Bosnia and Herzegovina, unspecified)
- Ledo d.o.o. (Slovenia, unspecified)
- Ledo d.o.o. (Kosovo, unspecified)

3.4.3.2 Financials

Ledo d.d.

KPI	2016 (HRK '000)	2015 (HRK '000)	2014 (HRK '000)
Fixed assets	1,293,972	1,431,068	1,438,284
Liquid assets	640,217	963,549	763,987
Deferred income	522,209	999,226	903,819
Long-term liabilities	164,187	167,233	169,985
Short-term liabilities	313,015	294,495	185,933
Total revenue	1,304,943	1,302,488	-
EBITA	-305,523	194,072	-
NET profit/loss	-342,483	153,982	-

Consolidated

KPI	2016 (HRK '000)	2015 (HRK '000)	2014 (HRK '000)
Fixed assets	636,913	699,924	743,941
Liquid assets	1,450,923	1,849,504	1,568,488
Deferred income	-	-	-
Long-term liabilities	20,309	20,986	44,694
Short-term liabilities	753,829	794,943	713,817
Total revenue	2,252,974	2,262,257	-
EBITA	-210,929	311,686	-
NET profit/loss	-284,613	249,819	-

Agrokor

3.4.3.3 *Red Flags*

Information from Official Sources

According to its 2016 annual report, the company was involved in one major legal dispute in Belgrade, Serbia. The Commercial Court in Belgrade ruled on a temporary measure freezing Ledo d.d.'s 100% share in Frikom d.o.o. as a guarantee for claims by Sberbank amounting to EUR 100 million + EUR 1.3 million of interest.

Further, the company is exposed to Agrokor's bankruptcy as it acted as one of the guarantors for various loans obtained by Agrokor, both prior to the bankruptcy proceedings and after they were initiated.

According to the Commercial Court of Zagreb's ruling on verified and contested creditors' claims from 15 January 2018, a large portion pertain directly to Ledo d.d.

3.4.3.3.1 *Media and Internet*

In March 2017, Ledo was owned by Agrokor (49 percent) and minor shareholders (51 percent), which included the Croatian Pensions Fund.⁴⁶ The Fund's participation in Ledo's shareholding was an alarming issue for local media during the Agrokor crisis, since there was fear of its indebtedness affecting the distribution of pensions.⁴⁷

Ledo is strongly associated with Todorić, as the vehicle through which he controlled around 90 percent of the Croatian ice cream market. When Ledo's subsidiary Frikom was fined in Serbia for abuse of a dominant market position, Ledo's operations in Croatia were taken as an example of the political immunity Todorić enjoyed from investigations and regulatory fines.⁴⁸ Such political protection was also speculated to have been instrumental in enabling

⁴⁶ <https://www.vecernji.hr/premium/smiju-li-ledo-belje-jamnica-i-zvijezda-ostati-na-burzi-1159583>

⁴⁷ <https://www.vecernji.hr/premium/mirovine-agrokor-jamnica-ledo-zvijezda-belje-1205731>

⁴⁸ <http://www.index.hr/vijesti/clanak/objektiv-iako-je-todoric-drzao-preko-90-posto-trzista-sladoleda-nije-se-provjeravalo-krsi-li-zakon-kao-u-srbiji-/659487.aspx>

an overly indebted Ledo to take a loan of approximately EUR 50 million from the Croatian Bank for Development and Reconstruction (HBOR).⁴⁹

Regarding its part in the Agrokor crisis, Ledo was noted for acting as a guarantor, issuing guarantees of nearly EUR 2.5 billion, which according to some estimates is ten times above the company's real value.⁵⁰ In May 2017, Ledo's shares were banned from being traded on the Zagreb Stock Exchange.⁵¹ Due to its extensive indebtedness, Ledo's management over its subsidiary Frikom in Serbia was frozen by Sberbank⁵² due to the loan debts of EUR 100 million.⁵³

The following red flag issues were found on Ledo as a separate entity:

- Ledo was criticised in March 2017 for distributing frozen fish containing parasites on the market. The contaminated product was withdrawn from the market upon an order from the Ministry of Agriculture.⁵⁴
- Ledo's subsidiary Frikom was fined EUR 3 million in Serbia in February 2015, after it was revealed that the company was abusing its dominant market position in setting retail prices.⁵⁵
- In January 2014, Ledo filed a lawsuit against the Montenegrin state before a Montenegrin court, requesting the return of EUR 1 million which it previously

⁴⁹ <http://www.index.hr/vijesti/clanak/drzavna-banka-prezaduzenom-ledo-odobravala-povlastene-kredite/973031.aspx>

⁵⁰ <https://www.jutarnji.hr/vijesti/hrvatska/tko-je-dopustio-da-se-ledo-zaduzi-10-puta-vise-nego-sto-vrijedi-kako-je-moguće-da-garantira-i-to-u-iznosu-od-gotovo-19-milijardi-kuna-za-agrokor/6150086/>

⁵¹ <http://www.poslovni.hr/burze/ledo-belje-i-vupik-izbaceni-iz-crobex-a-327573>

⁵² <http://www.poslovni.hr/hrvatska/frikom-zabrana-ledu-ne-znaci-da-je-sberbank-nas-vlasnik-331468>

⁵³ <http://www.index.hr/vijesti/clanak/na-zahjev-ruske-banke-ledu-zabranjeno-raspolaganje-tvrtkom-u-srbiji/990289.aspx>

⁵⁴ <https://www.jutarnji.hr/vijesti/hrvatska/ministarstvo-naredilo-povlacenje-popularnog-ledovog-proizvoda-nakon-pritužbi-potrosaca-u-oslicu-bez-glave-utvrdili-smo-prisutnost-endoparazita/5806359/>

⁵⁵ <http://www.index.hr/vijesti/clanak/todoricev-ledo-zaradio-1337-milijuna-kuna-na-rezultat-utjecala-kazna-od-3-milijuna-eura-u-srbiji/801548.aspx>

provided as a court deposit. Ledo claimed that the funds were mismanaged by a local judge.⁵⁶

- In April 2004, Ledo was sued by a Croatian citizen, claiming that she was denied winnings in a contest organised by the company. Ledo claimed that the winning ice cream stick she provided in 1999 contained a printing error, making it ineligible for the winnings. The court ordered Ledo to pay nearly EUR 40,000 to the plaintiff.⁵⁷

3.4.4 Zvijezda

3.4.4.1 *Company Profile*

Zvijezda d.d. is one of the leading regional producers of cooking oil, butter, vinegar, mayo, pickled foods, canned foods, and more. It has been part of the Agrokor Group since 1993.

According to information from the Croatian Central Depository and Clearing Company, the current top 10 shareholders are: Agrokor d.d. (51.84%), CERP/Republic of Croatia (16.95%), KBZ d.d. (15.71%), Privredna Banka Zagreb (1.19%), Puškarić Jakov (0.62%), Deržek Igor (0.4%), Vukorepa Nediljko (0.22%), Grubišić Miro (0.22%) and Culifaj Anita (0.19%). The remaining shares are held by smaller minority shareholders.

According to its 2016 annual report, the company recorded a 2% decrease in sales revenue due to lower market prices and slightly lower sales volume. Operating expenditure increased by 20% mainly due to Group restructuring and liabilities towards other Group companies as well as due to the increase in costs of raw materials.

On 31 December 2016, its subsidiaries included:

- Zvijezda d.o.o. Sarajevo (Bosnia and Herzegovina, 100%)
- Zvijezda d.o.o. Ljubljana (Slovenia, 100%)
- Sojara d.o.o. Zadar (100%)

⁵⁶ <http://www.vijesti.me/vijesti/kompanija-ledo-tuzila-crnu-goru-172074>

⁵⁷ <http://www.index.hr/vijesti/clanak/tvrtka-ledo-zbog-tiskarske-greske-na-stapicu-sladoleda-duzna-isplatiti-najmanje-300000-kuna/196633.aspx>

3.4.4.2 Financials

Zvijezda d.d.

KPI	2016 (HRK '000)	2015 (HRK '000)	2014 (HRK '000)
Fixed assets	622,012	599,044	637,735
Liquid assets	918,385	711,936	643,555
Deferred income	336,390	302,979	265,333
Long-term liabilities	87,527	66,624	73,671
Short-term liabilities	426,473	398,718	336,466
Total revenue	806,945	822,894	-
EBITA	-114,010	43,996	-
NET profit/loss	-119,241	7,300	-

Consolidated

KPI	2016 (HRK '000)	2015 (HRK '000)	2014 (HRK '000)
Fixed assets	743,566	726,404	758,911
Liquid assets	692,677	777,753	706,612
Deferred income	-	-	-
Long-term liabilities	112,392	94,061	98,598
Short-term liabilities	602,611	551,904	507,664
Total revenue	893,608	907,720	-
EBITA	-134,244	30,421	-
NET profit/loss	137,202	-1,069	-

3.4.4.3 Red Flags

3.4.4.3.1 Information from Official Sources

The company's 2016 annual report revealed that it was involved in one major legal dispute before the Commercial Court in Belgrade, Serbia. Banca Intesa a.d. had filed a debt collection suit for outstanding debt of EUR 15.4 million against Agrokor d.d. Zvijezda d.d. had acted as one of the guarantors for the said loan. No information about the current status of this legal dispute was found.

Agrokor

Further, the company is exposed to Agrokor's bankruptcy as it acted as one of the guarantors for various loans obtained by Agrokor, both prior to the bankruptcy proceedings and after they were initiated.

According to the Commercial Court of Zagreb's ruling on verified and contested creditors' claims from 15 January 2018, a large portion pertain directly to Zvijezda d.d.

3.4.4.3.2 *Media and Internet*

In September 2017, Banca Intesa filed a lawsuit before the Belgrade Commercial Court against Zvijezda, requesting the confiscation of its Serbian assets, including Idea (Konzum's 100% subsidiary), as part of the enforcement of debt payments against Agrokor.⁵⁸

No other red flags were identified related to Zvijezda itself.

3.4.5 PIK Vrbovec

3.4.5.1 *Company Profile*

PIK Vrbovec – mesna industrija d.d. is one of the leading regional producers of meat and processed meat products such as sausages, hot dogs, ham, and other such products.

According to information obtained from the Croatian Central Depository and Clearing Company, the company is currently fully owned by: Konzum d.d. (87.07%), KBZ d.d. (12.71%) and Agram Invest d.d. (0.21%).

The company had the following subsidiaries on 31 December 2016:

- PIK BH Laktaši d.o.o. (Bosnia and Herzegovina, 100%)
- Industrija mesa d.o.o. Zagreb (100%)

On 31 December 2016, the company employed 1,940 people, which is 3% less than in 2015. For production purposes, the company slaughtered and processed a total of 407,132 animals, which was a slight increase in comparison to 2015. Production of processed goods

⁵⁸ https://www.b92.net/biz/vesti/region.php?yyyy=2017&mm=09&dd=19&nav_id=1305258

also increased slightly and was 26.7 million kg in 2016. Sales increased by a total of 4% in 2016, whilst exports amounted to 18% of total sales, mostly to Slovenia, Macedonia and Italy.

3.4.5.2 *Financials*

KPI	2016 (HRK '000)	2015 (HRK '000)	2014 (HRK '000)
Fixed assets	725,844	744,340	762,873
Liquid assets	688,680	469,053	1,564,916
Deferred income	-65,263	-86,307	-166,503
Long-term liabilities	65,938	50,255	478,517
Short-term liabilities	698,056	533,935	1,298,180
Total revenue	2,165,547	2,194,394	-
EBITA	6,174	102,507	-
NET profit/loss	-1,972	-2,119	-

3.4.5.3 *Red Flags*

3.4.5.3.1 *Information from Official Sources*

According to the Company's 2016 annual report, it was not involved in any major legal disputes. However, the company is exposed to Agrokor's bankruptcy as it acted as one of the guarantors for various loans obtained by Agrokor, both prior to the bankruptcy proceedings and after they were initiated.

According to the Commercial Court of Zagreb's ruling on verified and contested creditors' claims from 15 January 2018, a large portion pertain directly to PIK Vrbovec – industrija mesa d.d.

3.4.5.3.2 *Media and Internet*

In March 2005, 92 percent of PIK's shares were sold by the Croatian government to Agrokor for EUR 131,000. As part of the deal, Agrokor also took over PIK Vrbovec's debts of approximately EUR 5.25 million.⁵⁹ It was also noted as a guarantor for Ledo's debts.⁶⁰

The following red flag issues were found on PIK Vrbovec as a separate entity:

- In December 2017, PIK Vrbovec was accused by its employees of distributing rotten meat on the market.⁶¹
- In February 2008, PIK's former Managing Director was sentenced to five years imprisonment, after he was found guilty of misusing the company's funds in financing the loans of his private company Adria Management, as well as illegally selling PIK Vrbovec's assets in Sinj.⁶²

⁵⁹ <http://www.index.hr/vijesti/clanak/vlada-pikovi-belje-i-vrbovec-i-sluzbeno-agrokoru/255458.aspx>

⁶⁰ <https://www.vecernji.hr/biznis/pik-vrbovec-zatrazio-osiguranje-iznosa-za-jamstva-prema-ledu-1180530>

⁶¹ <http://www.index.hr/vijesti/clanak/radnici-pika-vrbovec-radili-smo-s-pokvarenim-mesom-a-ono-kojem-je-istekao-rok-smo-ponovo-pakirali/1015142.aspx>

⁶² <http://www.index.hr/vijesti/clanak/bivsem-direktoru-pika-pet-godina-zatvora-zbog-malverzacija/374622.aspx>

ANNEX 1: AGROKOR GROUP COMPANIES (31 DECEMBER 2016)

Source: Poslovni sistem Mercator d.d.'s 2016 Annual Report

No.	Company Name	Line of Business	Country	Registration Number
1.	360 MARKETING d.o.o.	Marketing services	Croatia	080755954
2.	A.N.P. Energija d.o.o.	Production and trade of electricity	Croatia	080883817
3.	A007 d.o.o.	Trade and services	Croatia	080956478
4.	Adreya Global	N/A	N/A	N/A
5.	Adria retail d.o.o.	Trade and services	Croatia	080913480
6.	Adriasense d.o.o.	Trade and services	Croatia	080875836
7.	Adriatica net d.o.o.	Travel agency	Croatia	080427370
8.	Agkor d.o.o.	Insurance	Serbia	21098302
9.	Agrokor AG Zug	International commercial transactions	Switzerland	CHE-101.817.228
10.	Agrokor d.d.	Holding company	Croatia	080020970
11.	Agrokor d.o.o. Grude	Trade and production of foodstuffs	Bosnia and Herzegovina	64-01-0065-10
12.	Agrokor-energija d.o.o.	Production and trade of electricity	Croatia	080738166
13.	Agrokor-trgovina d.o.o.	Trade of agricultural products	Croatia	080041079
14.	Agrolaguna d.d.	Agricultural production, processing and trade	Croatia	040003761
15.	Aliquantum ulaganja d.o.o.	Real estate	Croatia	080588075
16.	Angropromet d.o.o. - pripajanje Idei	Retail trade	Serbia	07238860
17.	ATLAS d.d.	Travel agency	Croatia	060000638
18.	Atlas Ambassador Doo	Travel agency	Serbia	07735952
19.	Atlas d.d. Dubrovnik	N/A	N/A	N/A
20.	Aureum stella d.o.o.	Trade and services	Croatia	080760542
21.	Backstage d.o.o.	Trade and services	Croatia	080776653
22.	Belje ABC d.o.o.	Production, trade and services	Croatia	030172805
23.	Belje Agro-vet d.o.o.	Veterinary services and trade	Croatia	030087902
24.	Belje d.d.	Processing of agricultural products	Croatia	030023435
25.	Beojana d.o.o.	Cinema	Serbia	20353287
26.	Beokona d.o.o.	Cinema	Serbia	20353490

27.	Beopana d.o.o.	Cinema	Serbia	20353392
28.	Beoslana d.o.o.	Cinema	Serbia	20353350
29.	Beovona d.o.o.	Cinema	Serbia	20353473
30.	Bio-zone d.o.o.	Trade and services	Croatia	080976878
31.	Boreas d.o.o.	N/A	Bosnia and Herzegovina	51-01-0159-09
32.	Costella	Production of mineral water	Slovenia	1433792000
33.	Dalmarina d.o.o.	Tourism and hospitality services	Croatia	100002895
34.	Db Kantun veleprodaja d.o.o.	Trade and services	Croatia	060338394
35.	Dijamant a.d.	Production of cooking oil	Serbia	08000344
36.	Dora foods	Production of spice and food additives	Poland	0000700678
37.	Eko Biograd d.o.o.	Agriculture and trade	Croatia	080695940
38.	Energija gradec d.o.o.	Production and trade of electricity	Croatia	080761705
39.	Euroviba d.o.o.	Production and trade of baked goods	Croatia	060006917
40.	Felix d.o.o.	Production and trade	Croatia	030020654
41.	Fonyodi Kft.	N/A	Hungary	N/A
42.	Frikom d.o.o.	Production of ice cream	Serbia	07042728
43.	Frikom-Beograd dooel	N/A	Macedonia	N/A
44.	Go.Adriatica d.o.o.	Travel agency	Croatia	030146289
45.	Gulliver travel d.o.o.	Travel agency	Croatia	060060226
46.	Hotel Forum d.o.o.	Tourism and hospitality services	Croatia	080995887
47.	Hoteli Koločep d.d.	Tourism and hospitality services	Croatia	060014950
48.	Hoteli Plat d.o.	Tourism and hospitality services	Croatia	060044226
49.	Hoteli Živogošće d.d.	Tourism and hospitality services	Croatia	060008601
50.	HU-PO d.o.o.	Trade and services	Croatia	080609091
51.	Idea d.o.o.	Real estate management	Serbia	06423566
52.	Industrija mesa d.o.o.	Production, processing and trade of meat and meat products	Croatia	080939705
53.	INIT d.d.	Information technology	Bosnia and Herzegovina	65-02-0002-11
54.	Irida d.o.o.	Processing and trade of fish	Croatia	010005556
55.	Jamnica d.d.	Production of mineral water	Croatia	080001412
56.	Jamnica Mineralna Voda d.o.o.	Production of mineral water	Slovenia	1306189000
57.	Jana North America	N/A	USA	E0063862013-6

58.	Jolly projekti jedan d.o.o. za poslovanje nekretninama	Real estate	Croatia	110044115
59.	Karisma Adriatic d.o.o.	Trade and services	Croatia	080969161
60.	Karisma hotels adriatic d.o.o.	Trade and services	Croatia	080805928
61.	KHA četiri d.o.o.	Trade and services	Croatia	080931376
62.	KHA pet d.o.o.	Trade and services	Croatia	080931384
63.	KHA tri d.o.o.	Trade and services	Croatia	080931368
64.	Kikindski mlin a.d.	Processing of cereals	Serbia	08021694
65.	Kompas d.d.	Travel agency	Slovenia	5448743000
66.	Kompas Turistička agencija d.o.o.	Travel agency	Croatia	040074652
67.	Kompas d.o.o. Sarajevo	Travel agency	Bosnia and Herzegovina	65-01-0857-11
68.	Kompas Beograd d.o.o.	Travel agency	Serbia	07538065
69.	Kompas France International	Travel agency	France	N/A
70.	Kompas Holidays International	Travel agency	USA	N/A
71.	Kompas Holidays International	Travel agency	The Netherlands	24266483
72.	Kompas Nordic Aps	Travel agency	Denmark	N/A
73.	Kompas Poland Sp.z.o.o.	Travel agency	Poland	0000038687
74.	Kompas Praha Spol	Travel agency	Czech Republic	15269540
75.	Kompas S.r.l.	Travel agency	Italy	N/A
76.	Kompas Touristik Espana	Travel agency	Spain	A59301465
77.	Kompas Turistik	Travel agency	Austria	N/A
78.	Kompas Turistik International	Travel agency	Hungary	01-09-078198
79.	Konsolidator d.o.o.	Management	Croatia	080848508
80.	Konzum d.d.	Wholesale and retail trade	Croatia	080000926
81.	Konzum d.o.o. Sarajevo	Wholesale and retail trade	Bosnia and Herzegovina	65-01-0623-10
82.	Kor-Broker d.o.o.	Insurance	Croatia	080913238
83.	Krka d.o.o.	Trade, hospitality and services	Croatia	060013336
84.	Kron d.o.o.	Information technology	Serbia	07020350
85.	Latere Terram d.o.o.	Trade and services	Croatia	080889320
86.	Ledo Čitluk d.o.o.	Production and trade of frozen food	Bosnia and Herzegovina	1-10174
87.	Ledo d.d.	Production and trade of frozen food	Croatia	080002964
88.	Ledo d.o.o. Ljubljana	Production and trade of frozen food	Slovenia	1216350000
89.	Ledo d.o.o. Podgorica	Production and trade of frozen food	Montenegro	50020822

90.	Ledo Kft.	Production and trade of frozen food	Hungary	13-09-074609
91.	Ledo Sh.p.h	Production and trade of frozen food	Kosovo	N/A
92.	Lovno gospodarstvo Moslavina d.o.o.	Hunting	Croatia	080011238
93.	M-Energija d.o.o.	Production and trade of electricity	Slovenia	1562819000
94.	Mercator – BH d.o.o.	Wholesale and retail trade	Bosnia and Herzegovina	65-01-0542-10
95.	Mercator – CG d.o.o.	Retail trade	Montenegro	50582045
96.	Mercator - Emba, d.d.	Food production	Slovenia	5002516000
97.	Mercator - H, d.o.o.	Trade and production	Croatia	040147469
98.	Mercator - S, d.o.o.	Retail trade	Serbia	06886671
99.	Mercator IP, d.o.o.	N/A	Slovenia	2054485000
100.	Mercator Macedonia, d.o.o.e.l.	Retail trade	Macedonia	N/A
101.	MERCATOR MAXI, d.o.o.	Catering	Slovenia	6855768000
102.	Mercator-Velpro, d.o.o.	Wholesale	Slovenia	6856209000
103.	Mg Mivela d.o.o. - ex Jamnica d.o.o. Beograd	Wholesale of soft drinks	Serbia	20080892
104.	Mladina d.d.	Wine production	Croatia	080018508
105.	Moje domaće meso d.o.o.	Production of meat and meat products	Croatia	010091037
106.	Mondo-tera d.o.o.	Services	Bosnia and Herzegovina	64-01-0100-10
107.	Morso-Line doo	Retail trade	Serbia	20822996
108.	M-Profil SPV d.o.o.	Real-estate management	Serbia	20715014
109.	mStart Business Solutions d.o.o.	Information technology	Serbia	21192538
110.	mStart d.o.o.	Information technology	Croatia	080630332
111.	Multiplus card d.o.o.	Promotion and services	Croatia	080728574
112.	Nova sloga d.o.o.	Production of soft drinks and mineral water	Serbia	17254332
113.	Pet-prom ulaganja d.o.o.	Services	Croatia	080770808
114.	Photo boutique d.o.o.	Publishing	Croatia	080693667
115.	PIK BH d.o.o. Laktaši	N/A	Bosnia and Herzegovina	N/A
116.	PIK Vrbovec – mesna industrija d.d.	Production and trade of meat and meat products	Croatia	080025974
117.	PIK Vrbovec d.o.o.	Meat processing and trade	Bosnia and Herzegovina	65-01-0935-08
118.	PIK-Vinkovci d.d.	Agricultural production and trade	Croatia	030001628
119.	Platinum-A d.o.o.	Real-estate management	Slovenia	6855741000

120.	Platinum-B d.o.o.	Real-estate management	Slovenia	6855849000
121.	Platinum-C d.o.o.	Real-estate management	Slovenia	6855857000
122.	Platinum-D d.o.o.	Real-estate management	Slovenia	6855750000
123.	Platinum-E d.o.o.	Real-estate management	Slovenia	7195931000
124.	Platinum-F d.o.o.	N/A	Slovenia	N/A
125.	Plodovi podravine d.o.o.	Production, trade and services	Croatia	070094977
126.	Poliklinka Aviva	Health services	Croatia	080221876
127.	Poljoprivreda j.d.o.o.	Production and trade	Croatia	110054448
128.	Poslovni sistem Mercator, d.d.	Holding company	Slovenia	5300231000
129.	Projektgradnja d.o.o.	Construction	Croatia	050001467
130.	Rivijera d.d.	Hospitality and tourism	Croatia	040024493
131.	Roto dinamic d.o.o.	Export and import trade	Croatia	080218683
132.	Roto ulaganja d.o.o.	Management	Croatia	080628950
133.	Sarajevski kiseljak d.d.	Production of mineral water	Bosnia and Herzegovina	51-02-0001-09
134.	Shutnell Limited Ltd. Cipar	N/A	Cyprus	HE 204205
135.	SK-735 d.o.o.	Trade and services	Croatia	080767636
136.	Sojara d.o.o.	N/A	Croatia	080013325
137.	Solana Pag d.d.	Production of salt	Croatia	020007811
138.	Super Kartica d.o.o.	Market research	Serbia	20918314
139.	Super kartica d.o.o. Podgorica	Market research	Montenegro	50764274
140.	Super Kartica d.o.o. Sarajevo	Promotional activities	Bosnia and Herzegovina	65-01-0492-14
141.	Terra Argenta d.o.o.	Trade and services	Croatia	080765353
142.	Tisak d.d.	Newspapers	Croatia	080001453
143.	Tisak d.o.o.	Newspapers	N/A	N/A
144.	TISAK InPost d.o.o.	Trade and services	Croatia	080952895
145.	Tisak usluge d.o.o.	Trade and services	Croatia	080863298
146.	TPDC Sarajevo d.d.	Trade and services	Bosnia and Herzegovina	1-1647
147.	Velpro - centar d.o.o.	Trade and services	Croatia	060334075
148.	Velpro d.o.o. Sarajevo	Wholesale	Bosnia and Herzegovina	65-01-0232-16
149.	Velpro sistem d.o.o. Beograd	Wholesale	Serbia	21201111
150.	Vinarija Novigrad d.o.o.	Production and trade of wine	Croatia	040163854
151.	Vinka	Agricultural production	Croatia	030066607

152.	Vinka Vizba Valandovo dooel	Production of wine	Macedonia	N/A
153.	Vjesnik-usluge d.o.o.	N/A	Croatia	080126648
154.	Vukovarski poljoprivredni industrijski kombinat d.d.	Agricultural production	Croatia	030041432
155.	Zagreb plakat d.o.o.	Services	Croatia	080563553
156.	Zvijezda d.d.	Production, trade and services	Croatia	080001822
157.	Zvijezda d.d.	Export and import trade	Slovenia	5607477000
158.	Zvijezda d.o.o. Sarajevo	Production	Bosnia and Herzegovina	65-01-0828-08
159.	Žitnjak d.d.	Production and trade	Croatia	080046355

5. ANNEX 2: HUMINT

5.1 Source 1

The source is a crisis manager, auditor, business counsellor and owner of several companies.

A) HUMINT collected before the 04 June 2018 settlement

Regarding advice for potential investors, I think that Agrokor and several companies within the Group need to be separated. Agrokor as a Group is quite diversified, and hardly anyone would be interested in such a complex structure as a whole. Besides being engaged in retail, agriculture and production as its dominant lines of business, the Group also owns a great number of companies which are engaged in completely unrelated sectors, such as health services, information technology and in the energy sector. Therefore, Agrokor in its present form does not make any sense.

Secondly, its strategy, the so-called “from the field to the table” is questionable, as it is a vertically integrated company, which is already an abandoned concept around the world. In Agrokor’s case, it is not an optimal location of resources.

Several individual companies might be interesting. The three basic segments – retail, agriculture and production – each on its own makes sense, whereas peripheral companies are senseless, although some of them may be profitable upon being taken over. As an example, if Agrokor’s IT company mStart could secure software support contracts for all three segments, that could be an interesting investment for an IT company.

The retail segment is barely profitable, but there is enough room for restructuring it. The production is of high quality and profitable. However, it relies on Agrokor’s own retail segment for distribution, which is a risk and its export stake is too low as a result. The agricultural segment received a lot of investments, but shows negative financial results, whereas EBITDA is allegedly positive. The payment of interest rates and the depreciation of large investments generate losses for the agricultural segment.

Agrokor

If any part of Agrokor were to be acquired by an investor, attention should be paid to hidden, or not clearly visible obligations, guarantees and long-term contracts that cannot be cancelled.

The largest advantage in acquiring Agrokor is its market share, which is unfortunately decreasing as long as the bankruptcy proceedings last. Its retail brands Konzum, Mercator and probably Idea still have the largest market share, which can be turned into profitable enterprises if sales were to be discontinued where unnecessary, the market share reduced, and in that manner, make them profitable. It is also possible to increase the market share, but only if the companies are solvent, liquid and experiencing growth trends. Considering that there is no such tendency in retail, the best option is to cut between 10 and 20 percent in volume, fall to 30 percent of the market share and then carry on with the growth through rebranding and restructuring.

In this part, Agrokor cannot be observed as a whole. Each company and business segment has its own advantages. The retail segment's advantages are its market share and the high degree of technological development, whereas its disadvantages are poor business management and a negative public image.

The strong technological development applies to agriculture in particular, where the brands Belje and PIK are positive assets, as are the production quantities. However, high indebtedness is the major issue for the agriculture segment of Agrokor.

The production segment has good profitability, well-established brands and market share. However, it depends on a single distribution channel that binds it to the Group – which may be its greatest burden. Due to these close ties, the shareholders will not receive anything. Generally speaking, a great disadvantage is the too rigid orientation to the local market of companies such as Jamnica, Ledo and Zvijezda, and this is essentially a strategic problem.

I believe that presently the highest problem within the company is the low morale, the departure of the skilled workforce due to the uncertainty, a relatively high degree of nepotism, which would be a challenge to deal with for anyone taking over the company.

Therefore, the quality of the management, insolvency and a general socialist mindset and the mindset of a family-run company are the key problems. A family-run mindset is not necessarily negative for foreigners; however, in Croatia it represents an obstacle and has other connotations, as quite often legal entities are identified with the individuals behind them. Most probably Agrokor will be identified with Todorčić or a long time.

In my opinion, there are three possible scenarios in the development of the Agrokor story. The first is to reach a settlement, where the largest part of the shares will be taken over by the suppliers, as their claims would be transformed into equity capital. This settlement scenario is less likely to occur due to various problems. There are indications that such a settlement would be a fraud, whereas there is also the amateur-like behaviour of the Extraordinary Commissioner Ante Rimljak and the rest of the extraordinary management, styled on the level of spending the company cards, alluding to the use of company funds for private purposes.

The second scenario would be not to reach a settlement on 10 July 2018 and to declare bankruptcy. In that case, some Group companies will not declare bankruptcy, whereas others will do so. Agrokor should declare bankruptcy; however, that does not necessarily apply for companies such as Ledo or Jamnica. They also have debts, but that does not mean that they have to pay up the entire amounts or do so immediately. They would rather have to sit down with financial institutions and negotiate on the payment models, say to pay only half. It does not mean that they would be automatically bankrupt. Another solution would be to make a capital increase of around HRK two billion. Most of the companies would not be forced to declare bankruptcy, as the shareholding structure would change. In this whole story, the most endangered companies are Konzum and Mercator.

The third scenario would be to change the Law on the Extraordinary Administration, add an annex and extend its application for a year.

The second scenario in my view is the best option, to declare bankruptcy. However, before undertaking such a measure, the bankruptcy law needs to be changed. In that case,

Agrokor would declare bankruptcy, along with Konzum and Mercator, the latter two being highly indebted and generating losses.

On the state's role, I think it should prolong the validity of the Law on the Extraordinary Administration for a year, change and adjust the bankruptcy legislation, and allow some parts of Agrokor to declare bankruptcy. I suspect that the state will most probably extend the Lex Agrokor. Agrokor is a private company with no direct state control, hence the state can only decide on whether to change the legislation or not. It can support and help, but nothing more than that. Prime Minister Andrej Plenković got into a coma when starting to face this problem, upon assuming power.

Regarding the timeline, a settlement is expected by 10 July 2018, but some contours should take place before that date. Otherwise, a bankruptcy is very likely.

B) HUMINT collected after the 04 June 2018 settlement

Firstly, I think we should wait for the deal to legally come into force, which I do not think will be an issue. In fact, I believe that the High Commercial Court did a really good and unbiased job. The deal, as it is, may still be rejected, but I do not believe that it will come to that.

In the meantime, I believe that the Extraordinary Commissioner should do everything in his power to consolidate the Group and gather actionable intelligence on all specific subsidiaries so that he can successfully transfer power to the new management. After that, the key will be refinancing of the roll-up credit, which would enable Kinghead Capital Management ('Kinghead') to get out of the whole ordeal.

This will be financed by Sberbank, since otherwise, they would endanger the "New Agrokor's" existence in which Sberbank will have the highest share. Next, Sberbank will attempt to appoint new management at the various subsidiaries who will run them until they can find a buyer. Taking into account the nature of this bank, I strongly believe that the ultimate buyer will be someone from Russia or a country closely related to it.

Regarding any potential information which has not been publicly declared, I am sure that there are side deals that made it possible to reach a consensus on moving forward in the first place. In the first place, there was a deal between Sberbank and Kinghead which surely contains some clauses only known to them. Then, there is also the deal that was reached between Alixpartners and the other creditors which was not fully publicly disclosed. At this moment, it cannot be estimated, with any degree of certainty, what the details of these deals may be.

5.2 Source 2

The source is a financial analyst and strategist, having worked in the banking sector and as a consultant for mergers and acquisitions in Croatia and abroad.

A) HUMINT collected before the 04 June 2018 settlement

When measured according to revenue, Agrokor is one of the largest private Groups in Central and Eastern Europe, holding the fifth or sixth place. Its real value is far higher than its book value, meaning the values shown by the current financial indicators. The key strengths of the Group are its agricultural and processing companies, which have a solid potential value. The companies engaged in retail, such as Konzum, Tisak, Mercator, Idea and Roda, should undergo a strategic restructuring process, to adapt to market trends and optimize.

The main weakness of the Group is its so-called vertical integration from the primary production, through processing to retail. The decomposition of the business activities and the expansion of the horizontal integration within the sectors where the individual companies are active, accompanied by their consolidative role in the South-eastern Europe region could be their strategic potential. Therefore, the current business model needs to undergo a change, as well as the strategic focus on the markets of South-eastern Europe.

The potential financial investor should evaluate the real market potential of several business units and divisions within the future strategic architecture of the Agrokor Group,

as well as their real growth potential and the mid- to long-run liabilities. The financial restructuring of the debt, combined with its partial strike-off, reprogramming it in the long-run and a debt and equity and swap could liberate the growth potentials in the local markets. It is also necessary to evaluate the required investments (CAPEX) into the processing capacities, along with the primary agricultural production.

Each of the companies belonging to the agricultural production division (Belje, VUPIK, PIK Vinkovci, Agrolaguna) disposes with a large number of agricultural products with primary processing development potential. This potential should be given special attention while being evaluated by the financial investors. Thus, the agricultural activities of the Group offer a great opportunity for the potential investors; however, the business model requires adaptation.

The companies engaged in industrial production of processed foods and beverages (Ledo, Jamnica, Zvijezda, Dijamant, PIK Vrbovec) have limited growth potential, as they are producing generic, inadequately innovative products, which face a largely more efficient international competition in the market. This processing and production division would require significant investments in the development of new and innovative products, as well as an additional diversification, in order to generate a new growth cycle in business activities outside the local retail market.

The retail division is the least effective and requires comprehensive costs optimisation measures and strategic restructuring. A decrease in the volume and number of retail stores could definitely increase its efficiency. An indicator is that the square meter values of Konzum's stores are significantly lower than those of the competition. Such measures would also increase the shares' values of future shareholders. The restructuring costs would be relatively high; thus, they require a thorough evaluation.

Agrokor's strategic concept of vertical integration cannot be efficient, due to the lack of a strategic focus and the inefficient corporate management, which is characteristic for conglomerates. Therefore, Agrokor should be transformed into a financial holding, whereas the mixed and diversified concern should be transformed into a Group of

independent companies. In such an approach, financial investors could choose which segment to invest into.

The investors in the primary agricultural production would take over the agricultural products, which could have political and geopolitical implications if the investors are not from a European Union country. The investors into the companies engaged in the food industry would take over modern production plants and the shares in the local and the regional markets. The retail investors would take over only the market share, such as the recent acquisition of Diona by Interspar and some other local retail chains.

The key risks for potential Agrokor's investors, apart from the current high indebtedness of the Group as a whole and the legal insecurity as a result of the sanitation model and the planned settlement, are related to the presently underdeveloped corporate management structure and relatively bad mid-management structure. The development of an efficient corporate management in such large companies may take a long time and incur high costs, such as in the case of INA.

As far as the state administration is concerned, it can pose a risk in terms of its jurisdiction, above all in the allocation of state-owned agricultural goods, the granting of concessions and various permits and licenses. However, these risks are marginal.

On the different scenarios, there are four of them:

- The first is the debt-to-equity swap scenario, which is dominated by large creditors outside the EU. Their main goal is to return their credits in a mid-term, no longer than 10 years. This scenario would also mean an influx of fresh capital, the search for strategic partners for individual companies and divisions, solid growth forecasts and a possible IPO in the mid-run.
- The second scenario would be a debt restructuring and partial strike-off, which would mean that the company would not get any fresh capital, would depend on indebted finances with low growth forecasts, whereas work places would be preserved which causing low market profitability.

- The third scenario would be the sale of assets and shares in several companies. This scenario is politically less likely; however, for the healthy parts of the Group a much desirable option. They would adapt and their efficiency would grow by accumulating new investments, such as the example of the takeover of Parmalat by Lactalis.
- The fourth scenario would be a bankruptcy and the restructuring through the bankruptcy proceedings. This scenario is not excluded as an option, and surely not as catastrophic as publicly perceived nowadays.

Given that the Croatian government took over the responsibility for “healing” Agrokor, it should clearly declare the goals it wishes to accomplish. The current Group’s workforce is not maintainable nor is it necessary to preserve. The key role should be to keep Agrokor and its companies in the Croatian market as the leading private employers, and to attract enough fresh capital for development and the expansion of activities in the international markets.

Keeping local companies and investors in the shareholding structure is one of the ideas based on the so-called “economic nationalism”, but its realization seems less likely due to the lack of capital. It also does not make any sense in the context of a unified EU market and general globalization. Domestic ownership for the Croatian national economy does not presume any advantages, given that the foreign companies from the real and financial sectors have proven themselves more efficient and as better employers than the local companies and banks.

If any of the scenarios I mentioned does not take place within the next 3-6 months, and a settlement is not reached, a bankruptcy would be inevitable, but not necessarily a dissolution. Since the opportunity for a quick restructuring was missed, the healing will not be simple nor realized in a short term. I think that around 5 to 7 years would be required for a sustainable solution.

B) HUMINT collected after the 04 June 2018 settlement

I believe that the imminent settlement between Agrokor's creditors is one that did not really have any realistic alternative. However, after the settlement is declared final, there will be a whole process of operational and strategic restructuring. Operational restructuring and an improvement of operational effectiveness ("doing things right") has to must a goal of increasing NET and operational profitability, as well as return on investment.

At the same time, I believe that the focus must also be on the restructuring of the "New Agrokor's" retail sector, considering that the activity of this sector in the company has fallen well below that of its competitors – international retail chains, especially hard discounters such as Lidl, Aldi, Hofer, etc. The current state of the operational profit, across the entire Group, does not allow for a return of debts and a sufficient return on investment in a time frame of at least 50 years.

Since the extent of operational restructuring is limited by the current strategic structure and the business scope of the various companies in the Group, I believe that to shorten the timeframe for returning debts, the new owners will surely have to conduct a new strategic restructuring as well and radically increase strategic effectiveness. This means that the owners of the "New Agrokor" will have to reposition Agrokor on the domestic and international markets, namely – the sectors in which Agrokor will operate in the future. The current strategic model of vertical integration, "from the field to the table", has proven ineffective; equally as overinvestment in establishing retail shops in areas with low purchasing power in Croatia and the region.

On the other hand, investments in agricultural and processing companies have also been unproductive, for example Belje, which virtually has no notable storage facilities or processing capacity for primary agricultural products.

Therefore, we can expect a quick sale of unprofitable business units, then restructuring and a search for strategic partners for some of Agrokor's more strategic and profitable business units in the retail, processing and agricultural sectors.

Lastly, I strongly believe that there are no significant unpublished clauses in the settlement deal that would have a high impact on Agrokor's future.

5.3 Source 3

The source is a highly positioned member of an investment funds management society.

A) HUMINT collected before the 04 June 2018 settlement

Bankruptcy is the conceptual framework for deliberating on the situation in Agrokor. We do not actually know what exactly the settlement will be, but it is clear that the creditors will take over the shareholding in Agrokor through the debt-to-equity swap. It turns out that their interest is to sell those shares, therefore I believe that the sale of each Group member separately will occur pretty fast, after the settlement. It is not of crucial importance whether the settlement will occur within the Lex Agrokor time-frame, or through a bankruptcy following the demise of the Lex.

Some Group companies may form a local consortium. Apart from on some Group companies engaged in agriculture, I do not think that the state will have any influence on the process as a whole. Partly because of the power of the state, but also due to the fatigue of the private sector in terms of the realization of such a massive takeover. The key questions are whether Konzum can be sold and to whom, as the success of the debt payment is depending these answers.

Agrokor's management team is currently changing, as per Lex Agrokor. However, I think it is too late for that change, as the damage has already been done. I do not only refer to a possibly corrupt scheme regarding consultancy contracts, but rather that some things were already defined, which were not good. Above all, I refer to the roll-up loan, which was too open handed to some creditors, which imposed an irrevocable damage on their trust in the process.

Agrokor as a consortium does not exist any longer, whereas the value of the former Group is held by its subsidiaries. One of the paths of implementing bankruptcy would be to sell

these subsidiaries – something Alvarez announced while joining Agrokor. I think that the public is mistaken in seeing a pre-bankruptcy settlement as an agreement with the creditors. They are in a dispute among each other, and they cannot reach a unified agreement. Therefore, an equal treatment of all creditors should be preserved, unlike the roll up. They should all understand this and agree, as there is no money. If there were, Agrokor would not have ended up bankrupt. That is also the basic rule of bankruptcy law.

Agrokor's investor will be large enterprises and investment funds. They do not require any advice per se, so there is not much to be said. A whole market will be up for grabs, and in Ledo's, Jamnica's and Pik Vrbovec's cases, even some technologies, including successful business models can be acquired. Agrokor's problems should not necessarily influence its individual companies. Given the protection provided by the Lex Agrokor and the government, even some legal risks related to the guarantees provided for loans by individual companies should not worry the investors too much, as in the end, these will most likely be covered by the Croatian Government.

B) HUMINT collected after the 04 June 2018 settlement

An implementation of the settlement agreement is imminent, but it is highly complex and involves more than 50,000 steps. Firstly, appeals on the settlement agreement – of which there are over 50 – must be resolved, which I do not believe will be transpire before the end of September. Provided that all the appeals are rejected or otherwise resolved, the implementation of the settlement might become legally enforceable and commence towards the end of the year.

If everything goes according to plan, I believe that the new management will immediately look to sell parts of the Agrokor Group and search for strategic partners for some business units such as the retail and processing ones. I believe it is key to reorganise and restructure the retail segment as soon as possible in order to successfully respond to growing competition in the local and regional markets.

The sale of some business units should go rather quickly, provided that there are no hiccups regarding decisions, for instance whether to sell them off one by one or all in one go. Whether they could find a buyer who would take over all of Agrokor or whether it will be stripped into pieces depends entirely on estimates of what would be more profitable and on the creditors.

I also believe that it is highly likely and possible that some companies in the Group might be purposely led into insolvency to decrease their market value so that some predetermined buyer could take them over. There is some interest from the Chinese in Agrokor. An internationalisation of the ownership structure might open doors for additional revenue streams through export, but only if the new owners utilise their influence.

Taking into account all the non-transparency and conflicts of interest thus far, I fully believe that there are some details regarding the settlement which have not been made public. However, I do not believe that they are of such importance that something could change drastically.

5.4 Source 4

The source is a legal expert in trade law. He previously worked in Agrokor and is acquainted with the situation in the Group and the process of the extraordinary management.

A) HUMINT collected before the 04 June 2018 settlement

A potential investment in Agrokor can be structured in multiple ways. Before all, it would be an investment in the capital restructuring of the “new” Agrokor, after the settlement. It could be the acquisition of parts or all of Agrokor’s companies, the acquisition of the claims towards Agrokor and its companies, as well as the settlement and investment in the Group’s highly exposed companies, such as Franck, AWT, Alca Zagreb, Zvečevo and Labud. Depending on the goals expected to be realized and the investor’s preference, the investment target and the placement of several specific means should be deliberated. It

should be taken into account that some investors are debt oriented, whereas others are equity oriented, meaning that some want the ownership of claims and the others the ownership of shares. In each of the investment categories there appears a bundle of information, which is highly significant. Nevertheless, some information is universally important. Above all, the information on how to valorise the individual claims towards Agrokor and its companies.

Taking that into account, it is important to observe how the prices of the guarantees would be negotiated, as well as the pledge rights and the shareholding structure. According to some of my sources, all demands, whose insurance is not tied to the assets of each company (as the right on the shares is excluded), will be treated equally. Therefore, it turns out that the claims from the trade supply, bonds, bills of exchange, financial arrangements will be equally impaired. It is also important to determine how the guarantees of the companies from the Agrokor Group (more than HRK 24 billion) will be acknowledged within the settlement itself for each individual company.

With the acquisition of Agrokor, a unique system of a vertically integrated production chain is gained, which includes the production, processing and placement of goods to the end users. This also means that a strategic position in South-eastern Europe would be gained, especially in Croatia, as well as important market shares in several segments. These segments are retail and wholesale above 20 percent on the national level, a leading position in the distribution of beverages and a large share in the ice cream market, soft drinks, meat and meat processed products, as well as cooking oil and oil derivatives. In terms of technologies, some of Agrokor's factories are highly developed, such as Ledo and Zvijezda, despite the lack of own cereal processing plants, as well as Belja, which received significant investments.

Agrokor's problems can be divided into several categories: the under-capacity of the management cadre, a general fear among Agrokor's employees, and the outflow of qualified cadres. The inability of an operations restructuring should be taken into account, which is necessary in several companies, especially in Konzum, during the period of the

extraordinary management and financial consolidation. Furthermore, during the extraordinary management process, the policy of not making decisions is wasting valuable time necessary for the restructuring. Konzum is rapidly losing its market share, which has significant implications on the production companies, which, in turn, is reducing the manoeuvring space in placing the products and reaching their former profitability.

On the state administration level, it should be noted that article 41 of the Law on the Extraordinary Administration prevents any administrative lawsuits against Agrokor, and in that sense it is legally protected. However, the political pressure on the process was strong, and there was not enough manoeuvring space left for the Extraordinary Commissioner and his team to undertake an operation restructuring and the financial consolidation. The reason behind it was that the political establishment did not allow the necessary layoffs and the termination of several activities, and possibly the dissolution of some companies. The departure of the Extraordinary Commissioner Ante Ramljak will further slowdown the process and push it away from the operation restructuring, as every move of his successor will be received with distrust and scepticism.

Regarding the possible scenarios for Agrokor, I believe that a debt-to-equity swap will take place, but I do not know in which part. It is realistic to expect that Croatian suppliers will find themselves in the role of the owners; however, credit institutions would be reluctant to accept such an outcome due to the problems some of these suppliers face internally on a management and operational level. Therefore, it is highly likely that a scenario will take place where the creditors will receive a certain type of a tradeable certificate, which can either be converted into ownership, or sold to third parties, where the maturity of such a certificate would be long-term, with a minimal annual profit. It is possible that local companies such as Adris Group, would attempt to get a significant share in the new structure.

As for the state, it will want to keep Agrokor in domestic ownership, as it would enable a certain degree of agreement over employment and the engagement of the Croatian business world.

A possible deadline for the events to take place is 10 July 2018, which is the day by which a settlement should be reached according to Lex Agrokor. The settlement will determine a long-term solution, whereas the new shareholding structure will not be clear until the end of 2018.

B) HUMINT collected after the 04 June 2018 settlement

I believe that the Croatian state and the future owners, as per the settlement, are still not fully legally secure. Namely, there is a number of creditors such as Adris and possibly British American Tobacco, which will seek settlement of Agrokor's debts towards them via European and other international tribunals.

Additionally, there are rumours that Agrokor, or more precisely, Fabris Peruško, are seeking new directors for Agrokor's subsidiaries, which is taking place at a wrong time in my opinion, since it will cause additional stress in operations and question the future of the company's management structure. Namely, it is necessary to find a significant number of quality managers in industries which, until present, have been virtual monopolies in Croatia.

I also believe that there are parts of the settlement which have not been made public, but I cannot comment on that since I do not have direct insight into the whole thing.

5.5 Source 5

The source is a financial expert and bank executive. He is closely acquainted with Agrokor's case.

A) HUMINT collected before the 04 June 2018 settlement

It is important to determine what the Agrokor Group will look like in 2-3 years, and especially what the fate of its Group companies will be. As an example, what is the value

Agrokor

of Jamnica or Ledo without the strong position of Konzum, its distribution and wholesale on the market. Also, the agricultural processing companies such as PIK Vrbovec, PIK Vinkovci and Belje are essentially competitors. I think that their competitiveness in the current market conditions could be lower than perceived so far.

A potential investor should plan how and when to acquire ownership. If the outcome of the settlement would be the partial sale of Agrokor's companies' assets, then the acquisition would be done at best as a debt-to-equity transaction, which presumes the purchase of isolated claims, aimed at several companies. I came to know from some sources that some interested parties are already thinking about such an outcome and are undertaking suchlike preparations. I would advise potential investors to start purchasing parts of the debts of specific companies, especially of the creditors who are ready to sell for a low price.

The current settlement proposition is aimed to tie claims to several companies according to the expenses, and not the Group as a whole. In that manner, a better starting position in the sales process could be purchased. It should also be important to check the revised companies' reports and balances; however, they may be showing a worse picture, meaning that their management was motivated to lower several indicators. With the acquisitions of Agrokor as a whole, a problematic system would be gained. Although a vertically integrated system would be gained, one should bear in mind that such a concept proved itself as inefficient and partly unfocused. Such a system included almost everything – tourist agencies, hotel enterprises, online sales and cattle breeding, whereby the two key retail operations – Konzum and Tisak – were not optimized, and as such present a potential problem after the acquisition. These two companies require significant restructuring.

The potential problems within Agrokor's Group are that some companies had a closed manner in conducting business over the years, relying on strong financial aid, and, as such, some of them do not have a satisfactory position without the benefits of being part of the Group. An example would be Zvijezda, which has a lesser value without Dijamant,

which also applies to Frikom and Ledo. The companies are also interconnected through interest groups and decades-long nepotistic employment of relatives. Furthermore, some companies such as Konzum and Tisak are experiencing a general fall as a result of the evolution of the consumers and the market.

I think that the state administration would surely ease the situation if some politically unaffiliated shareholders appear. Such an example is the state's attitude towards Sberbank, which I hold as unjust, as Sberbank is excluded from the roll-up loan, settlement, etc. The same could happen in the case of the concession extension for Jamnica and Belje.

The most likely option for the time being would be to adopt the published settlement draft, with lesser cosmetic changes, and as such two options would be equally placed on the table – the debt-to equity swap and the hair-cut claims, and everything the Group's companies get through a reset by a court order, cleansed from debts and risks. Under reset, I mean the establishment of new companies which would take over the assets, but not the liabilities.

It is hard to determine what the state's role would be in the development of the Agrokor case. However, I consider that the state cannot afford new scandals related to the extraordinary management process. Judging by the current state of affairs, it is likely that the companies would end up in domestic or mixed ownership. However, it is hardly conceivable that in case of a hair-cut scenario the creditors would agree to the sale of the assets below the estimated market value. It means that the creditors could insist, regardless of any political signalling, on a transparent and public auction for the sale of the assets. It is expected that international participants would hardly be prevented from realising their interests.

It is highly unlikely to expect the settlement before 10 July 2018 as announced, but I do not exclude an earlier settlement. Anyhow, the implementation of the settlement may take years, therefore, the period preceding 10 July 2018 is important for the potential investors to conduct an analysis of the debts and claims, in order to take over better starting

positions. If they are to undertake that after the afore-mentioned date, then the investment perspectives would be clearer, but the expected yields lower.

B) HUMINT collected after the 04 June 2018 settlement

I believe that the agreed-upon prolonged roll-up credit is too cumbersome – the effective interest rate is around 10% - for the Group to be able to repay it on its own. Therefore, I believe that along with the commencement of implementation of the settlement, the Group will enter into a new refinancing process as well so that the individual companies will become capable of repaying said debts once implementation starts.

It is also evident that the future owners will work on selling the Group, or parts of it. Currently, there is an ongoing due diligence process on all the individual Group companies in order to give the future owners some idea about their value and there are also rumours that some Chinese investors are interested in buying the Group. On the other hand, the new owners might opt to financially consolidate the Group and run it themselves, at least for a time.

There are also qualified rumours that Fabris Peruško will remain in the Group's management and that he has already reached a deal for that, probably in return for some favours he performed for some of the future owners.

5.6 Source 6

The source is a financial consultant, interim manager and former director of one of Agrokor's companies.

A) HUMINT collected before the 04 June 2018 settlement

The key information necessary for potential investors is the evaluation of the value of the assets of the companies belonging to Agrokor, since the latest valuations were tendentious and the auditors provided a conditional opinion. Furthermore, a five-year income plan and EBITDA margins compared to similar companies would be required, as well as a legal opinion on possible lawsuits against Agrokor after a settlement is reached, evaluation of

the quality of the management, cash flow, and the export potential of Agrokor's companies.

Among Agrokor's advantages and the most important things that the new investor would gain are the Croatian and the neighbouring markets, strong brands, new equipment and a high quality middle management. However, its problems and critical points within Agrokor are the lack of adequate senior corporate management, imprecise balance and an unclear shareholding structure.

Regarding the potential scenarios on the development of the situation, I believe that a combination of a hair-cut and a debt-to-equity swap will take place. The bond owners insured with the collaterals and the local suppliers, in cooperation with equity funds, will attempt to purchase new shares from the financial and uninterested shareholders. The state is attempting to help local suppliers, but I believe that the market and the judiciary will provide corrective measures against any such influence.

I believe that the settlement or a bankruptcy accompanied by a restructuring process will occur by the end of the year, followed by an ownership fusion and the further sale of the individual companies.

B) HUMINT collected after the 04 June 2018 settlement

I believe that the Group will continue functioning normally under the new ownership and management structure. Since part of the company's capital is required for return of debts to owners via dividend, I believe that there will be a tendency for lower investment in development and expansion of business activities. In 3-5 years, I believe that the company will divest, firstly its retail, and then its production and processing business units.

In this whole settlement process, I am an outsider, so I do not know if there is some unpublished part of the settlement. That is something that would be known to 'insiders'. My only dilemma is why a standstill agreement was not reached at the onset of the whole affair and why the interests of small creditors were not protected.

5.7 Source 7

The source is a Serbian businessman with operations in most of the former Yugoslav region. He is also strongly connected to power influencers in the region and has access to sensitive and restricted information.

A) HUMINT collected after the 04 June 2018 settlement

Firstly, Agrokor did not enter into insolvency and the, now infamous, Lex Agrokor for any of the reasons which have been made public – unsustainable growth, poor strategic management, vertical integration, indebtedness, etc. To understand the current situation, you have to understand what lies in the background.

Namely, Ivica Todorić actually believed that he was the owner of Agrokor, whereas in reality, he had taken so many loans to fuel the Group's growth that at some point he just became a pawn run by the real owners – the creditors. Up until 2014, he had taken loans from western banks, in the background of many of them – the Vatican Bank (IOR). And these creditors allowed Todorić to remain as the head of Agrokor, so long as he was acting in their best interests, i.e. expanding their influence regionally to Serbia, Slovenia, Bosnia & Herzegovina...

Then, some genius adviser of Todorić's told him, in late 2013, early 2014, that he could reprogram some of these loans at better interest rates through Sberbank, which is a Russian entity and the "West" was already looking to destabilise Russia and, in fact by the time that Todorić took the first EUR 600 million from Sberbank, the Ukrainian crisis was already in motion with Crimea having been annexed by the Russian Federation.

To make the long story short, as I said, Todorić was under the impression that he was in charge of Agrokor. However, the Group's other creditors saw his move to take fresh loans and refinancing loans from a Russian bank as a threat – imagine, a Russian bank becoming a major influence in the largest regional company! Therefore, the insolvency proceedings were initiated, in fact, by the "Western" power circles, or directly by Agrokor's other

creditors, and the Lex Agrokor was implemented to stop the Russians from gaining a bigger foothold or to try to force them to back down completely.

Now, as for the current situation, Sberbank will get around 40% shares in the “New Agrokor” if the settlement becomes legally enforceable. However, as the fate of the company still lies in the middle of a much larger power struggle between the Russian Federation and its “Western” rivals, I expect there to still be a lot of tension, at least behind the curtains and any real decisions and power plays will also take place there. I am closely associated with local and regional politicians, as well as – and more importantly, the power influencers from the background, and I can safely say that virtually no major decision in the entire region is taken without backing and influence of either the Russian or the US / other major Western Governments.

These are “games” played on whole other level. The settlement between creditors was reached practically during the 2018 World Cup, when Croatian President Kolinda Grabar-Kitarović had spent a significant amount of time in Russia, but also in Brussels, which many may view as a coincidence, but that is far from the truth. On the side-lines of the World Cup and the NATO summit, the fate of Agrokor was also being discussed, among other things. There is even a rumour going around that Russia purposely lost the penalty shootout to Croatia in order to secure a better deal for Sberbank in the Agrokor settlement.

However, the fact that a condition for the settlement agreement, in the first place, was that Sberbank and VTB could not obtain more than 50% shares in Agrokor, separately or jointly, illustrates the political aspect of this whole scenario. What will happen in the future? The game goes on. There are rumours that some Chinese investors are interested, and China is deemed more of a Russian ally than a western one. However, on a global scale, the US is entering a de facto trade war with China and it is not like the West is blind to Russian interests or vice-versa. I expect there to be a real mini and silent war that will most likely end with a division of Agrokor with its Serbia-based (where Russia is still deemed to have a significant political foothold) subsidiaries falling into the hands of Russians and its Croatia-based subsidiaries being divided among western and Chinese

companies. Whatever the final solution is, i.e., however it (Agrokor) is split in the end, the division itself is inevitable.

From a purely business point of view, Todorić's vertical integration of the Group was wrong to start with. It has been proven, time and time again, that such a business model is not sustainable. In my opinion and experience, the best place to be, unless you are operating in the virtual world of IT, is to be in the distribution and trendsetting sector. Namely, you may make certain investments in production and processing by providing suppliers with the knowhow and technology required for them to provide you with a steady supply of quality goods, but you do not want to be the owner of the production line. Trends change, and with changing trends, you need to quickly adapt and start selling the new "next best thing". By being the owner of a production/processing business, you cannot do this quickly enough.

Therefore, I believe that, from an investment point of view, Agrokor's production and processing, especially agricultural business units, will not fetch a high price as no serious investor wants to get involved there.

In light of all this, I do not think that there is much room for any "outside investor" (free-market independent company or investment fund) to get involved – not unless they have strong political ties and influence and the stomach for such high-level games which inevitably pose high business risks as well. Otherwise, "outside investors" will probably be only left with a choice to purchase some of Agrokor's less appealing business units, such as the agricultural, production and processing ones as I mentioned above.

6. DISCLAIMER

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