

# Agrokor

Case study

6 May 2019

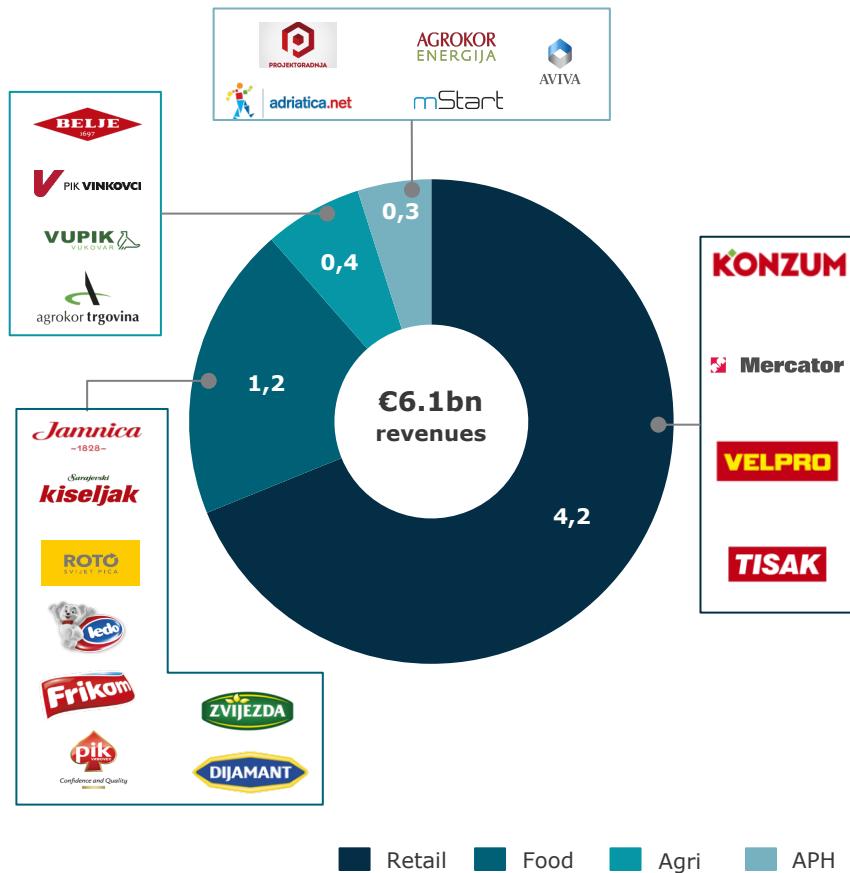
# Contents

- 1. What are we going to talk about?**
2. What did we do?
3. What were the lessons learned?

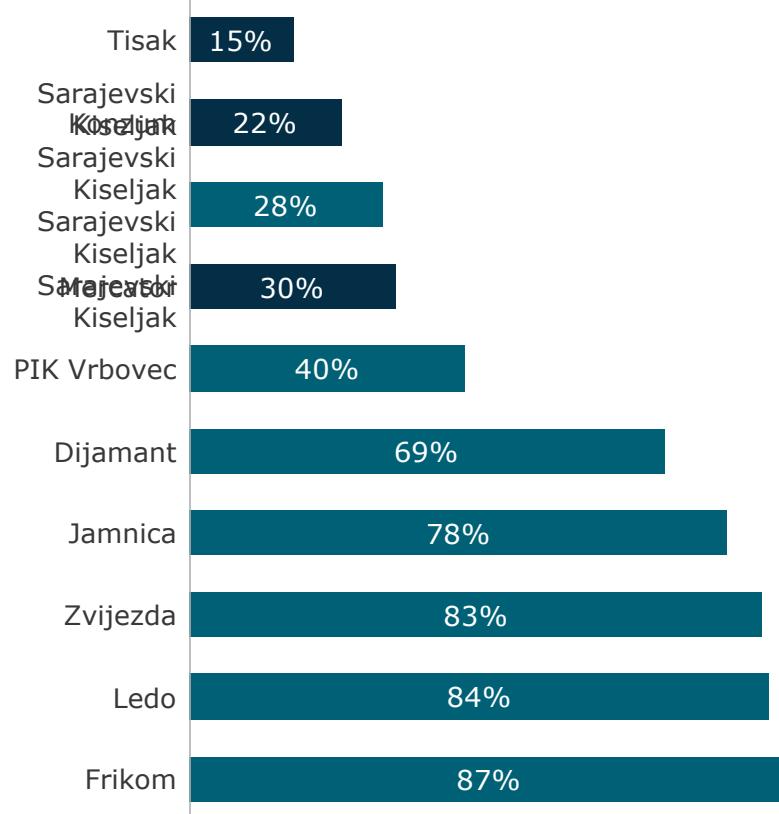
# Agrokor's 2017 revenue of EUR 6.1bn is c.14% of Croatia's GDP

The largest corporate in the Balkan - a business built in the aftermath of the 1990s Balkan conflict

Vertically integrated retail conglomerate...



...with strong market share in many businesses



# Market leading operating businesses

## Facts and figures

**KONZUM**

**TISAK**

**VELPRO**



- >700 stores & centers and ~1000 kiosks in Croatia
- ~500 stores in Slovenia
- ~200 stores in Bosnia



#1 in water/ ice cream/ edible oils, margarine & mayonnaise business in the Adria region



#1 fresh and processed meat business in Croatia

## Alternative facts



**1 = 2.3 L**  
vinecane wine



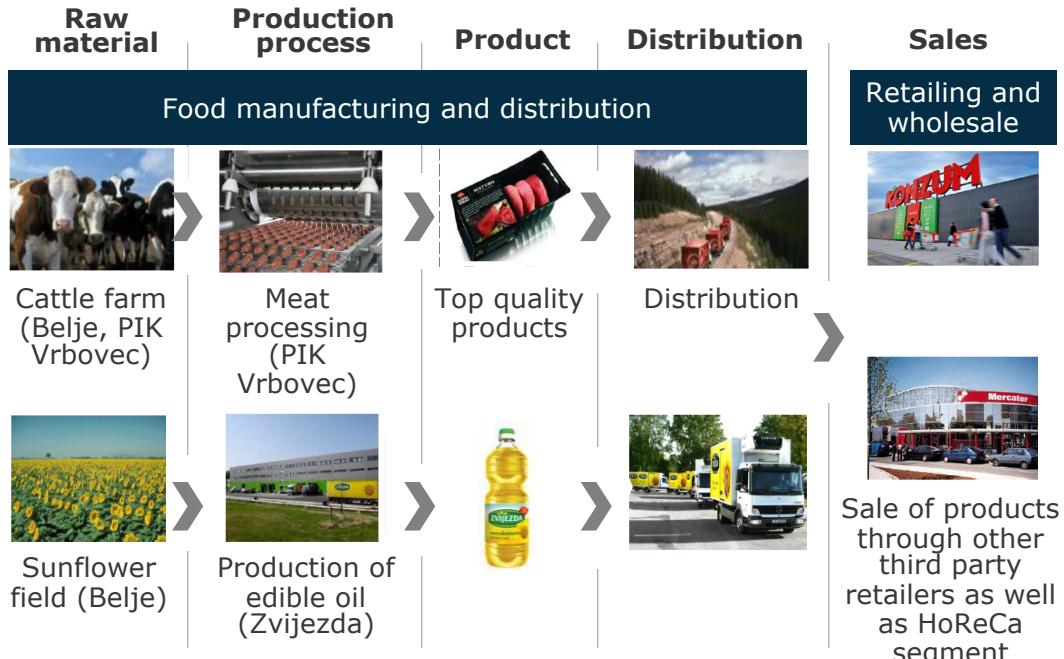
**1 = 1.7 t**  
cow cheese



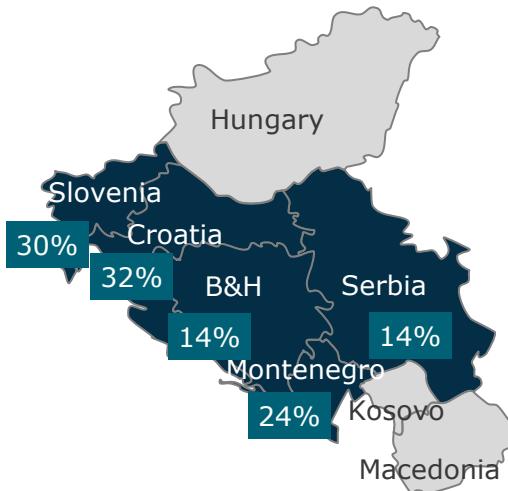
**1 = 2.8 t**  
sow pork meat



# Vertical multi-layer business model failed...



Adria region retail market share % (2014)



## Several factors led to the crisis



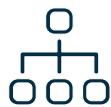
Efficiencies expected of 'buy & build' strategy not realised



Slow response to liquidity crisis



Adverse mega trends



Corporate governance unsuitable for size and complexity of group



Overleveraged business with over €6 billion of debt



Low cost supermarket competition winning market share

## **... and the situation escalated in spring 2017 ...**

- Agrokor had an unsustainable level of indebtedness.
- A syndication process (part of a refinancing process) had failed.
- The group experienced a squeeze on liquidity following concerns arising from the failure of syndication and concerns as to the information provided in the group's accounts.
- Liquidity was inadequate across the group, suppliers required advance payments.
- Agrokor's credit rating was lowered.
- Agrokor had difficulties in servicing regular obligations with suppliers and creditors.
- Delivery of goods and services was reduced or completely suspended.
- Production in some group companies was halted or reduced.
- Supply of retail companies was seriously impaired with some products being out of stock completely.
- Preparations for the key 2017 tourist season were negatively impacted.
- Salaries were paid only with delays.
- Accounts of several group companies were frozen.

**→ on 7 April 2017, the bank accounts were empty but for a couple of cents.**

**... leading to a crisis that threatened the Croatian economy**

Croatia's Agrokor business empire too big to fail?

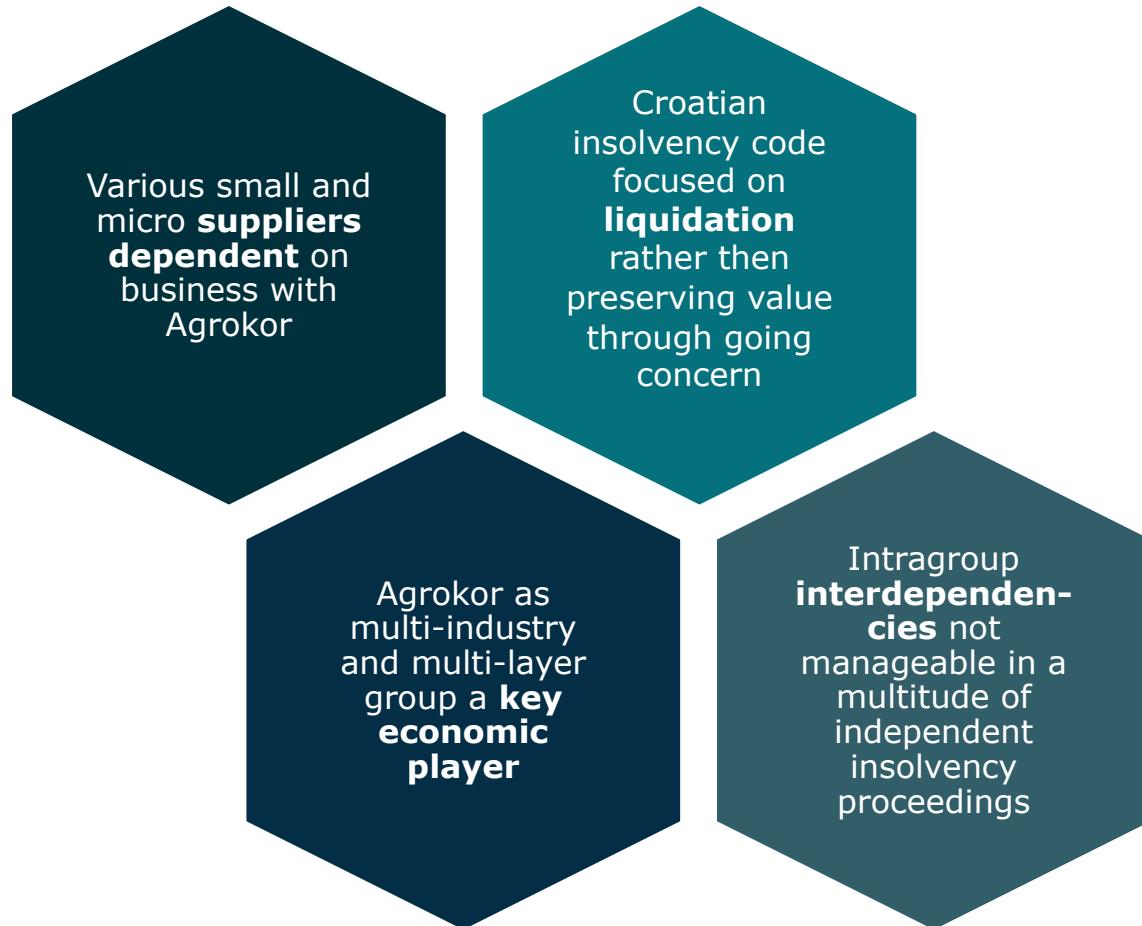
## **Agrokor Bankruptcy: The Balkan Parmalat, 10 Times Bigger (In Proportion)**

**One of the most complicated restructurings, since the unwinding of Lehman Brothers.**

Too many eggs in one basket

**Agrokor, the supermarket whose collapse threatens the Balkans**

# Government had to act in order to avoid an economic collapse ...



# ... and introduced the Extraordinary Administration Act

## Introduction of the law and Agrokor's filing

- The Croatian parliament passed the "Law on Extraordinary Administration Proceeding in Companies of Systemic Importance for the Republic of Croatia" (EA Act) on 6 April 2017, introducing a court-supervised restructuring procedure for on a going concern basis
- EA Act is based on the Croatian Bankruptcy Act (similar to the German Insolvency Code) and meanwhile recognized as insolvency procedure under the recast European Insolvency Regulation (Annex A)
- On 7 April 2017, Agrokor d.d. applied for the opening of, extraordinary administration proceedings under the EA Act for the group in Croatia

## Procedure and settlement plan

- Provides for a court-supervised administration procedure to be conducted by an administrator over a debtor and its subsidiaries and affiliates, aiming at the preservation of the business
- Goal is to restructure the business through a settlement plan (similar to a German insolvency plan), allowing for inter alia
  - transfer of assets,
  - sale of assets,
  - cancellation of debt,
  - payment deferrals and
  - debt equity swap
- Settlement plan requires approval of 2/3 majority of creditors and confirmation by the court

# Main features of the Extraordinary Administration Act

	Feature	Benefits
Consolidation	<ul style="list-style-type: none"><li>Proceedings are conducted over a debtor and its subsidiaries (where the debtor holds at least 25%) and affiliates</li></ul>	<ul style="list-style-type: none"><li>Allows for procedural, but not substantive, consolidation of a Croatian group of companies</li></ul>
Payment of pre-petition claims	<ul style="list-style-type: none"><li>Allows for payment of certain pre-petition debt, in particular suppliers</li></ul>	<ul style="list-style-type: none"><li>Helps to stabilize the business</li><li>At Agrokor, payment of suppliers in the amount of €150 million in the lead up to the critical summer season 2017 led to increase in working capital by €300 million</li></ul>
Super priority loan	<ul style="list-style-type: none"><li>Possibility to take out loans with super priority ranking (Masleverbindlichkeit) in both the extraordinary administration proceedings and a potential subsequent insolvency procedure</li></ul>	<ul style="list-style-type: none"><li>Helps to secure liquidity</li><li>At Agrokor, key for keeping the business running and paying suppliers</li></ul>
Roll-up	<ul style="list-style-type: none"><li>Allows to 'roll' pre-petition financial debt into super senior status in case new money is provided</li></ul>	<ul style="list-style-type: none"><li>Provides an incentive to financial creditors to provide new money in a highly critical situation and might decrease finance costs</li><li>At Agrokor, the offer including a roll up was economically the most favourable for all stakeholders</li></ul>

# Contents

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# Our role in the situation

## AlixPartners involvement

### Interim management

- Acted as Chief Restructuring Advisor and supported the Extraordinary Commissioner in the development and execution of the settlement plan

### Business plan development

- Worked with the operating companies to develop business plans and implement key levers to drive EBITDA improvement

### Liquidity management

- Implemented best practice cash management measures and processes to improve cash position and increase visibility on liquidity issues

## Kirkland & Ellis involvement

### New Money

- Negotiated and advised on the EUR 1bn super senior facility taken out in 2017 and subsequent amendments, including the envisioned transfer of the facility to the new group

### Extraordinary Administration Procedure

- Advised on international best practice in restructuring, assisted in the implementation

### Extensive Litigation Battle

- Engaged in extensive litigation in the UK, US, Serbia, Slovenia, Bosnia and Montenegro against recalcitrant creditors

### Settlement Plan

- Prepared and negotiated the settlement plan with all stakeholders, together with Croatian counsel

# First priority: Facilitate survival



**Survival  
Phase**

Stabilization  
Phase

Negotiation  
Phase

# As our engagement started, the company landscape was fragile



**Cash was expected  
to run out shortly**

We implemented strong cash management practices and started a new money fund raising process



**No management  
structure in place**

Interim management structure put in place and held together by the advisory team

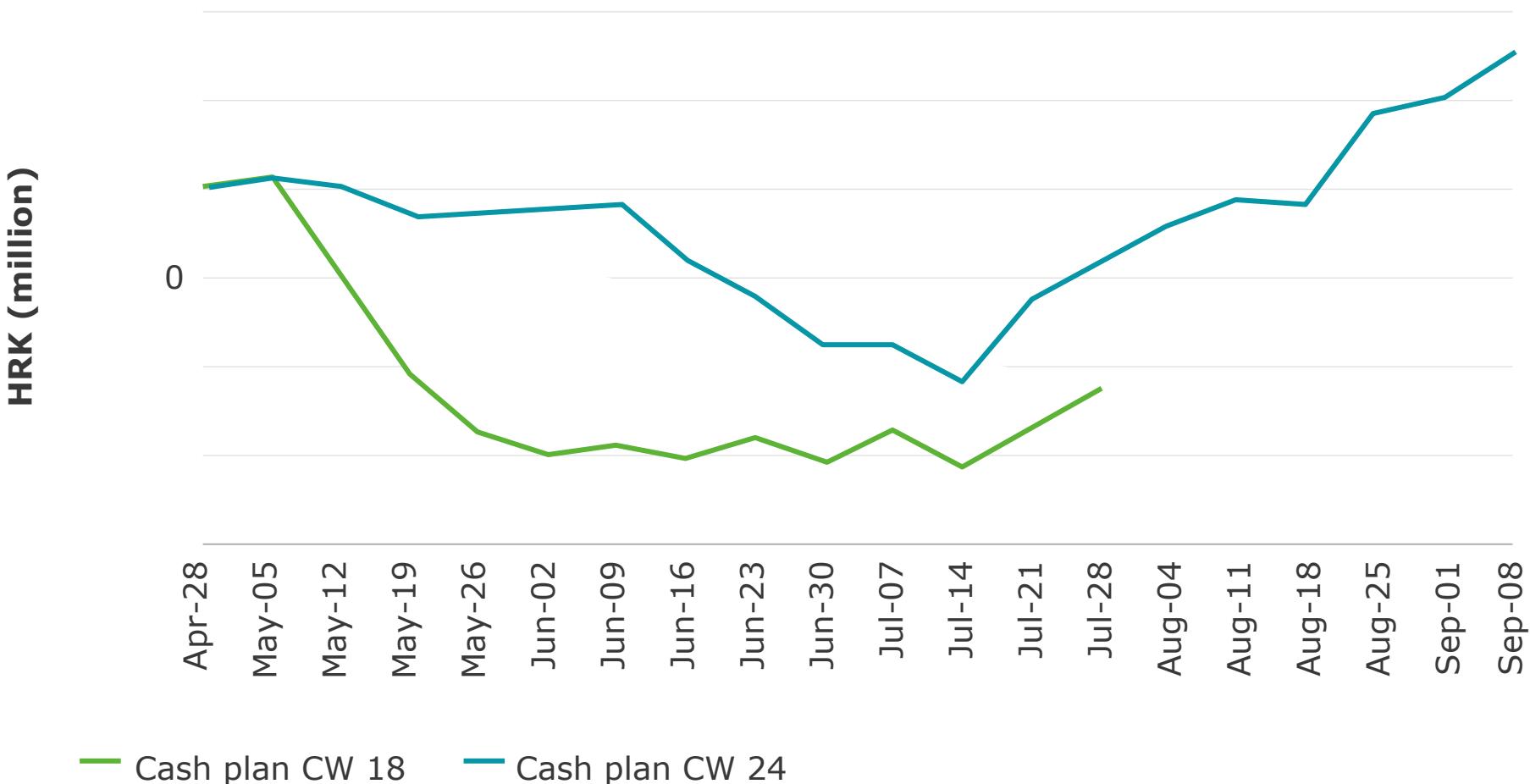


**A (strategic) plan  
needed developing**

Set about developing a business plan that would be used as the basis of the overall restructuring process

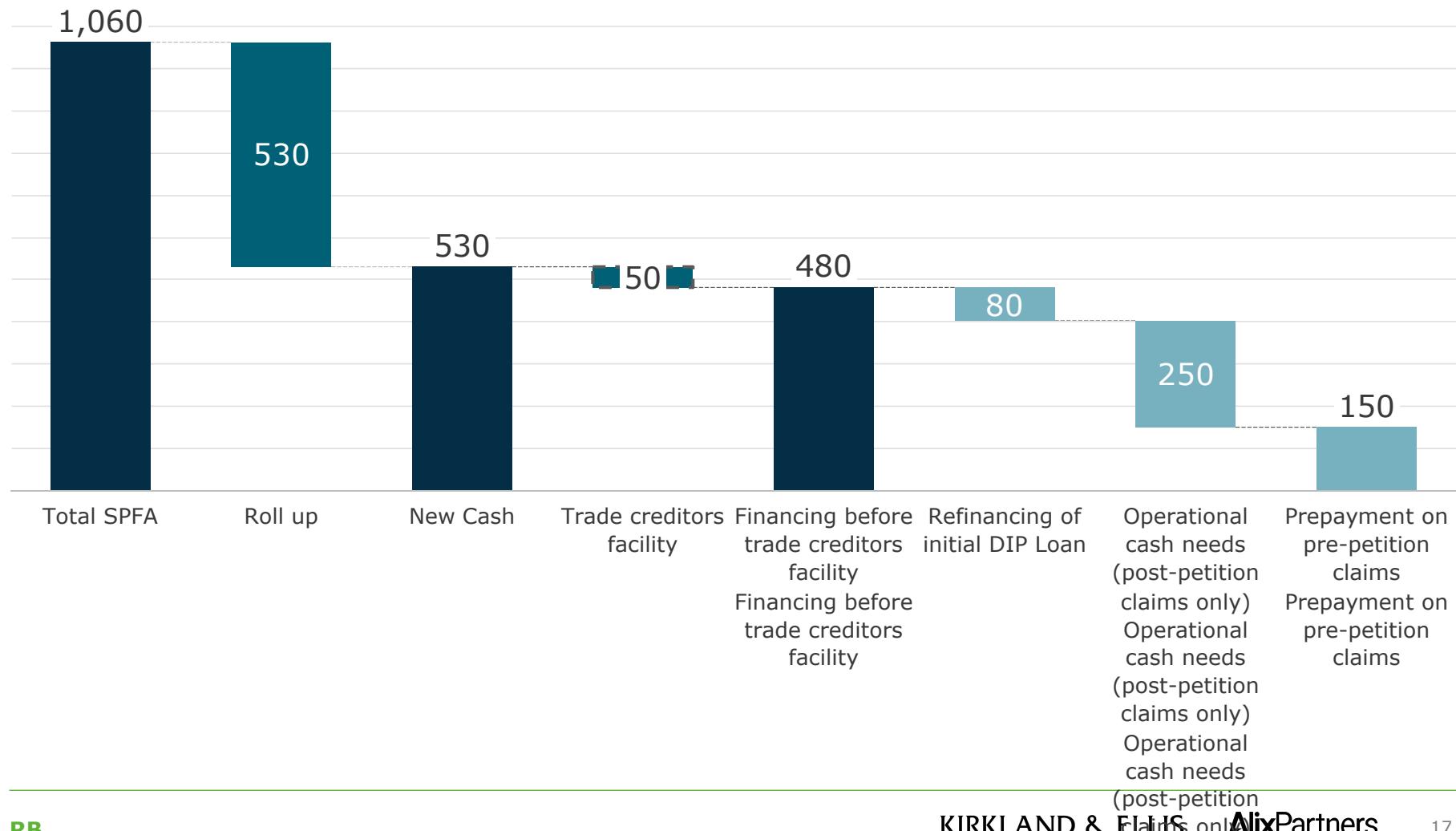
# Immediate priority was to preserve cash as there was a gap

Forecast 19 core subsidiaries 13 week closing cash balance (HRK million)



# €530 million new money raised in a “roll-up” structure

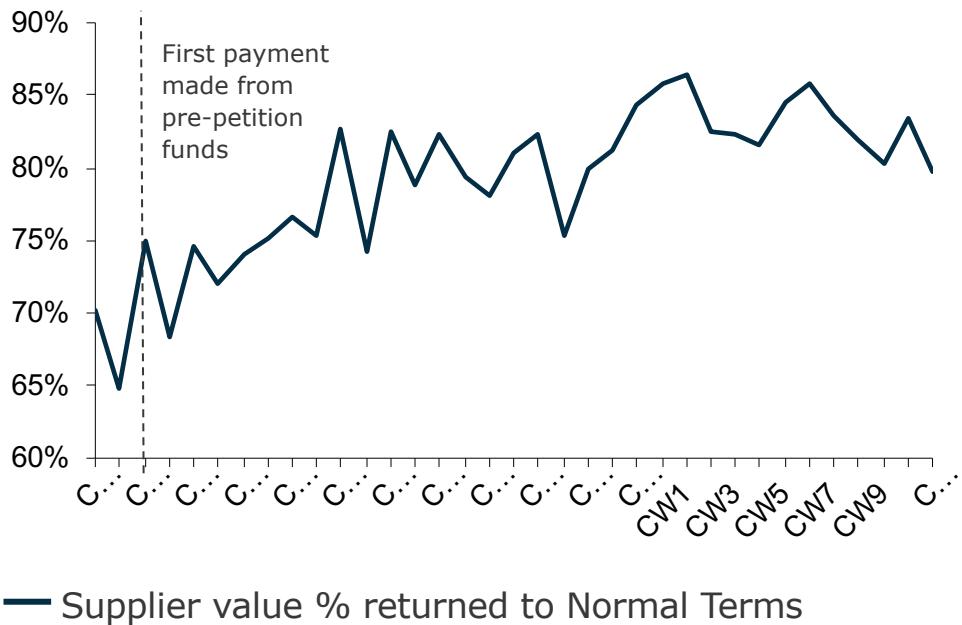
Super senior facility agreement (SPFA) (€m)



# Innovative incentives set to support stabilization and settlement

Pool structure	Objectives/ Criteria
	<p><b>Pool A EUR 30m</b></p> <p><b>Protect vulnerable systemic micro suppliers and reduce the number of claim holders</b></p> <ul style="list-style-type: none"><li>• Classification as micro supplier</li><li>• Filed and undisputed claim</li></ul>
<p><b>Pre payment pre-petition supplier claims EUR 150m</b></p>	<p><b>Pool B EUR 110m</b></p> <p><b>Maximise (time and volume) of return to “normal” terms</b></p> <ul style="list-style-type: none"><li>• Relationship relevant for the operating business</li><li>• Return to market standard terms (supply &amp; payment) confirmed</li></ul>
	<p><b>Pool C EUR 10m</b></p> <p><b>Handle critical supplier issues (“fight unexpected fires”)</b></p> <ul style="list-style-type: none"><li>• Documented case-by-case decision</li><li>• Approval by Creditor’s Committee, Commissioner, Restructuring Advisor</li></ul>

# Significant benefits achieved within the Group, and beyond



## Selected achievements

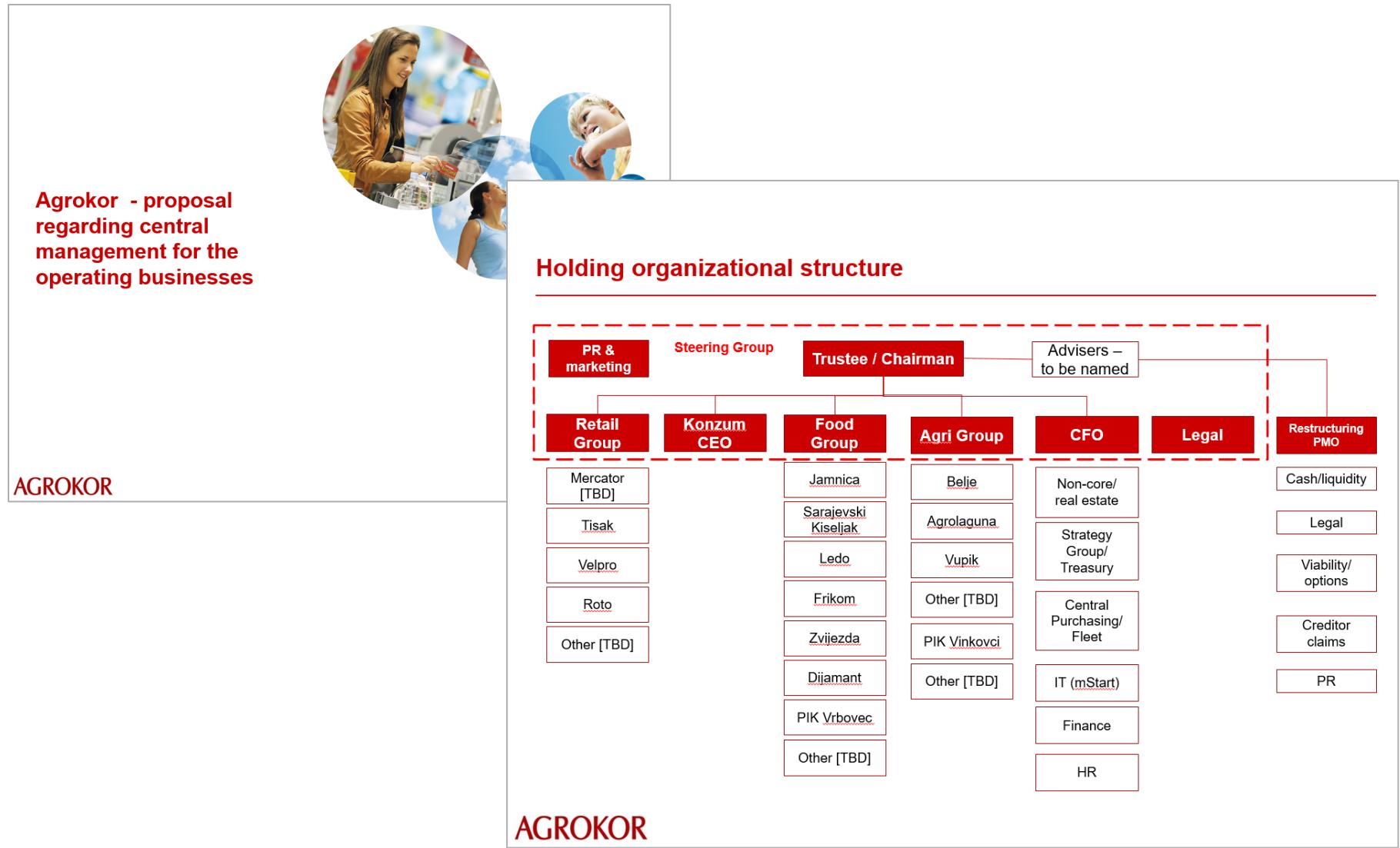
- Multi-layer business model fueled by cash (Intercompany cash mgmt. critical)
- Re-stocking facilitated
- More than EUR 300m of trade finance generated through improved supplier terms
- The management teams of the OpCos were educated on cash
- Suppliers started to be paid on time
- Non-cash compensation business stopped (a way of doing business from the middle ages)

## **Second priority: Stabilize the business**



Source: Project team

# Interim management structure put in place to keep up operations



# 'Viability Plans' were developed for valuation and restructuring

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A COMPREHENSIVE VIABILITY PLAN HAS BEEN DEVELOPED

## Agrokor Viability Plan Summary

31 October 2017

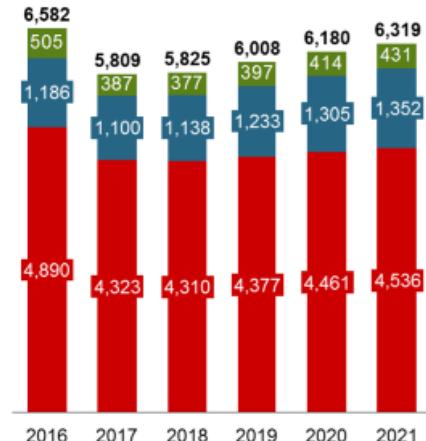
AGROKOR

Core revenue is expected to decline by 4% while EBITDA is planned to almost double between 2016 and 2021

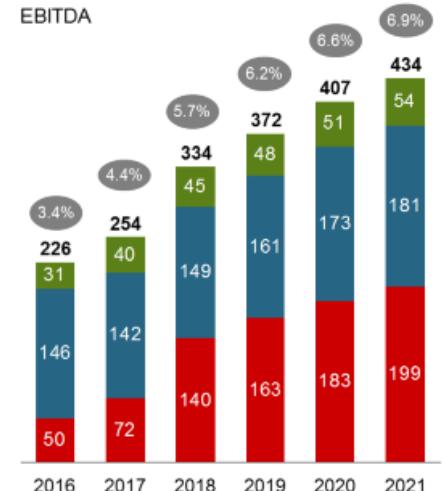
Updated for refreshed Konzum projections

Core: Revenue and EBITDA 2016 to 2021; excludes APH and Agrokor d.d.; non-consolidated [in EUR m]

Revenue



EBITDA



Retail    Food    Agri    % EBITDA margin

AGROKOR

Note: EBITDA for Konzum does not take into account annual cash rent payments for finance leases (included in finance charges)  
Source: Companies' business plans

14

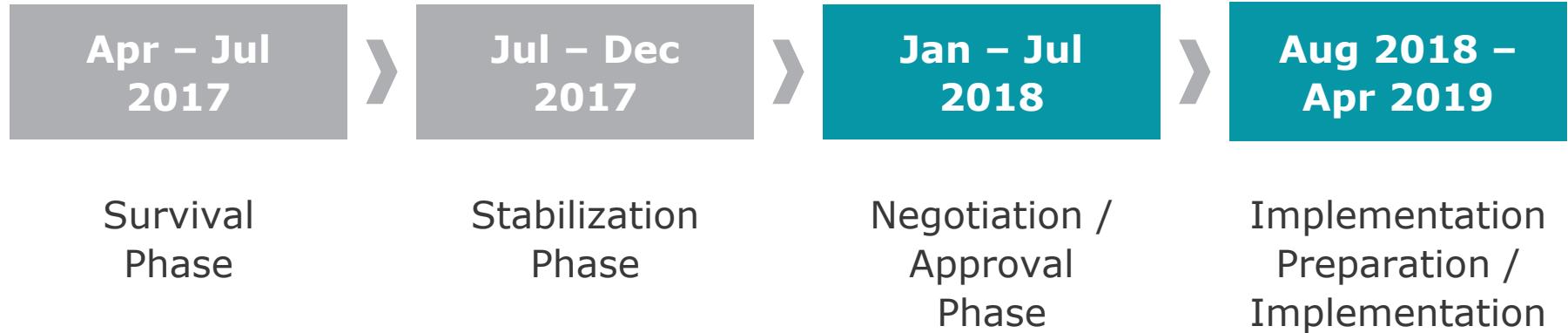
# Economic clear-cut debt/equity swap outlined

## Aims

- To deliver a transparent, fast, fair and equitable deal to creditors that preserves maximum value.
- To achieve a complete separation of assets from legacy liabilities.
- To disentangle old from the new group.
- To restructure the old debt into a combination of reinstated debt and equity – creditors to become the new 100% owners of the business and will have full operational control.
- To achieve a fast, simple and efficient ownership transfer to place a sustainable business into the hands of the creditors and to exit the Extraordinary Administration procedure ('EA') as quickly as possible.



## Third priority: Achieve settlement



Source: Project team

# Press coverage has also been used as a negotiation tool

Marica Vidakovic, suppliers representative on creditors council rips up restructuring proposal



Commissioner, Ante Ramljak, explaining issues with Agrokor creditors



Alastair Beveridge gives a newspaper interview:  
"We will conclude the settlement and save Agrokor"



New Commissioner, Fabris Perusko and Deputy Commissioner Irena Weber, hold a press conference



Deputy Prime Minister Martina Dalić holds a briefing on Agrokor



# Despite challenges faced, negotiations progressed

Resignations of high profile stakeholders hampered the process

NEWS 21 FEB 18

### Ramljak Quits as Manager of Croatia's Agrokor

Croatia's government is searching for a 'new extraordinary' manager for the troubled behemoth after Ante Ramljak quit over claims about conflicts of interest.

Relja Dusek | BIRN | Zagreb



Bloomberg

### Croatian Deputy Premier Resigns Over Role in Agrokor Law

By Jasmina Kuzmanovic  
14. svibnja 2018. 14:30 CEST Updated on 14. svibnja 2018. 15:46 CEST

Dacic consulted with experts who were later hired at Agrokor  
Ruling coalition united in seeking Agrokor settlement on time



Challenges against the law were also brought to try and stall the process

"Lex Agrokor" Declared Constitutional

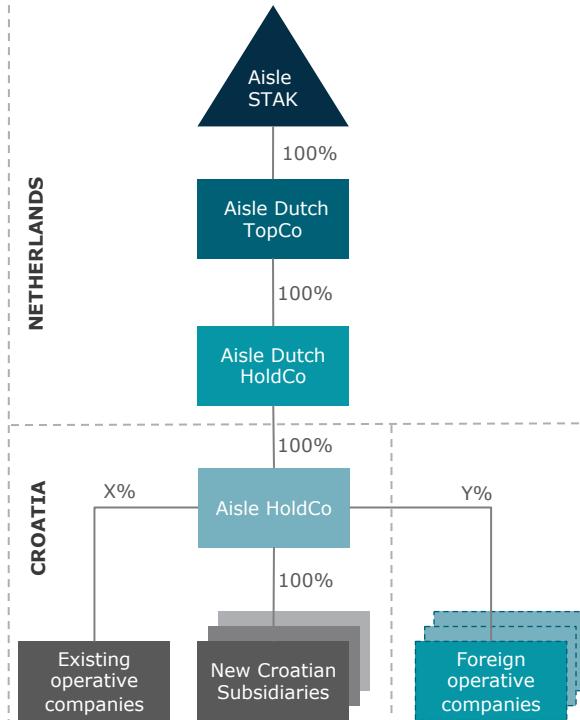
Several all party offsite meetings held to progress the settlement terms



# Legal implementation

## Set-up new holding structure

- Group supposed to be held by new Dutch and Croatian Holdings
- Dutch STAK on top to facilitate administration (more than 500 shareholders expected)

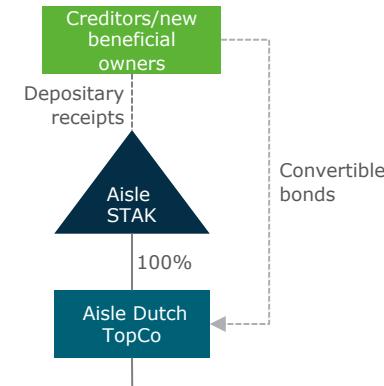


## Transfer of business to new group

- Agrokor's business will be transferred at fair value to the new structure by way of **share transfers** (in respect of foreign subsidiaries and viable Croatian subsidiaries) and **asset transfers** (in respect of non-viable Croatian subsidiaries)
- Asset transfer approach with respect to non-viable Croatian subsidiaries has been chosen to allow for a '**clean start**' of the business, mitigating any liability risks
- Legal **transfer** of assets effected through the settlement plan itself
- The fair value of the business has been assessed based on viability plans and consequent valuations using a variety of valuation methods including trading multiples, precedent transactions and discounted cash flow analysis, the results of which have been weighted in line with recognised industry practices

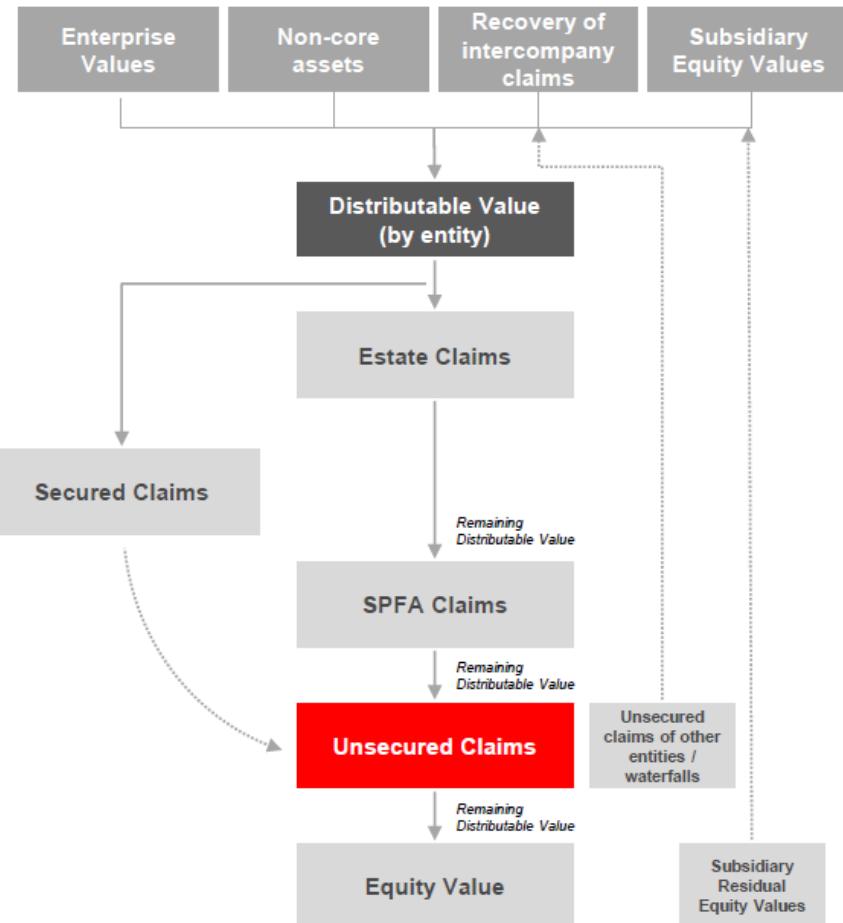
## Debt-equity-swap/cash payments

- Pre-petition debt is **swapped into equity** and an equity-like instrument issued by the new group. Only creditors with claims lower than approximately €5,300 receive a **cash payment on their recovery**
- Instruments consist of:
  - **Depository receipts** for the shares Aisle STAK holds in Aisle Dutch TopCo issued by Aisle STAK, the ultimate shareholder of the new group. The depository receipts reflect the equity interest in the new group
  - **Convertible bonds** issued by Aisle Dutch TopCo



# Recovery of pre-petition creditors

- Recovery of each individual pre-petition claim against any member of the group under extraordinary administration has been determined on an entity-by-entity basis under an **Entity Priority Concept**
- The Entity Priority Concept allocates each claim with an individual portion of the total value of the Agrokor group. The recovery thereby depends upon:
  - the entity that owes the claim; and
  - any security or other rights attributable to the claim.



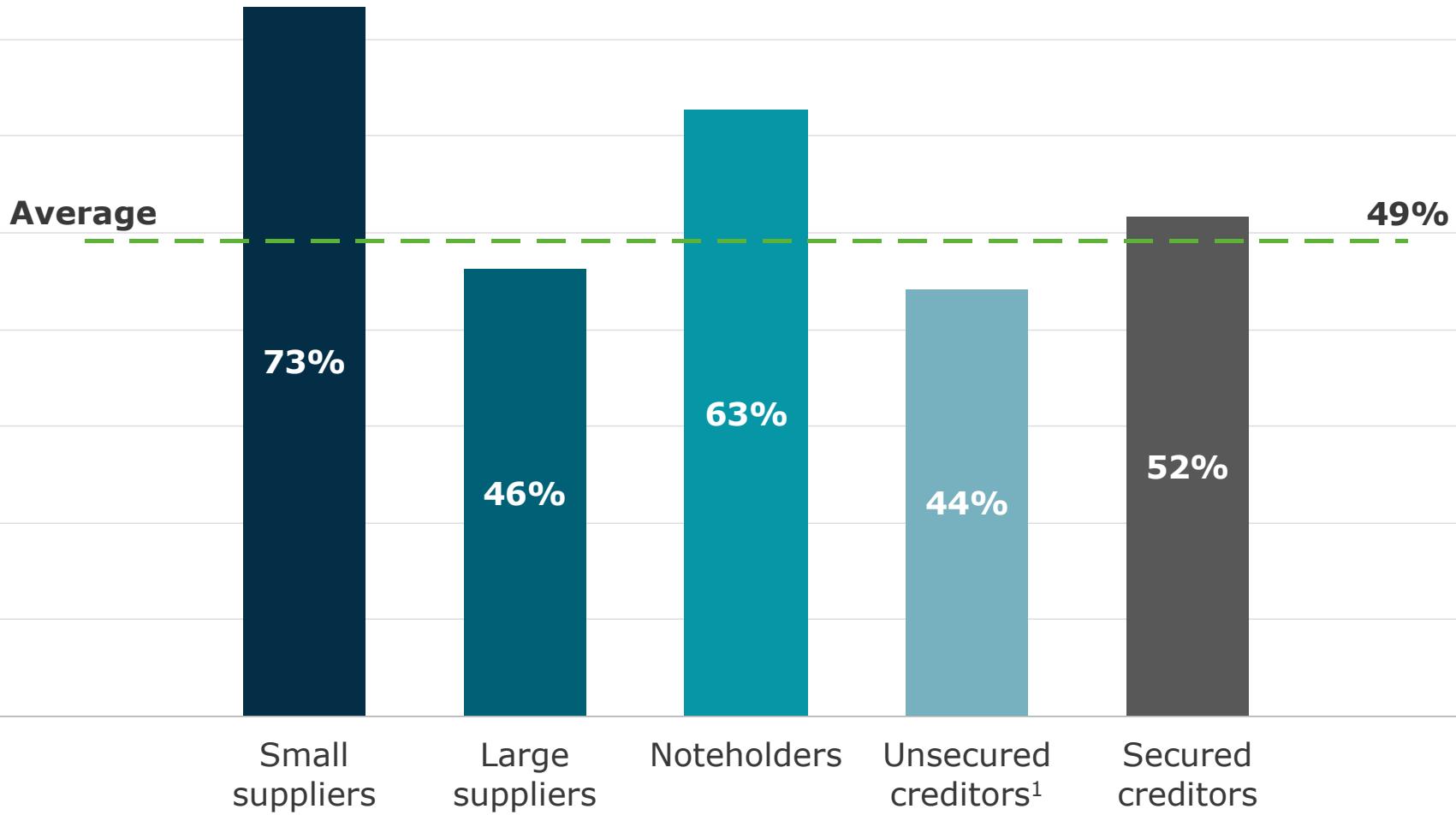
# Selected EA waterfalls – Recovery for widely guaranteed claims

	Selected EA waterfalls									Non-EA guarantors		
	Agrokor	Jamnica	Ledo	Konzum	Belje	Zvijezda	Vupik	PIK Vinkovci	Agrokor-Trgovina	Sarajevski Kiseljak	Ledo Citluk	Konzum BiH
<b>Enterprise Value ("EV")</b>	-	<b>494.9</b>	<b>280.9</b>	<b>209.3</b>	<b>276.5</b>	<b>78.7</b>	<b>56.9</b>	<b>41.9</b>	<b>18.6</b>			
Plus: Non-core assets <sup>(1)</sup>	11.3	0.1	-	40.4	-	0.2	0.4	1.3	-			
Plus: Equity value of subsidiaries <sup>(2)</sup>	298.9	28.3	163.5	5.9	0.3	6.2	-	0.8	0.3			
Plus: Intercompany receivables	89.8	13.3	1.0	5.7	0.3	0.9	0.5	7.4	18.1			
<b>Distributable Value ("DV")</b>	<b>400.0</b>	<b>536.6</b>	<b>445.3</b>	<b>261.2</b>	<b>277.0</b>	<b>85.9</b>	<b>57.8</b>	<b>51.4</b>	<b>37.0</b>			
Less: Estate claims <sup>(3)</sup>	-	-	-	-	-	-	-	-	-			
<b>DV remaining</b>	<b>400.0</b>	<b>536.6</b>	<b>445.3</b>	<b>261.2</b>	<b>277.0</b>	<b>85.9</b>	<b>57.8</b>	<b>51.4</b>	<b>37.0</b>			
Less: Encumbered assets <sup>(4)</sup>	13.4	4.0	0.8	63.9	22.6	-	16.7	7.6	-			
<b>DV remaining</b>	<b>386.7</b>	<b>532.6</b>	<b>444.6</b>	<b>197.3</b>	<b>254.4</b>	<b>85.9</b>	<b>41.1</b>	<b>43.8</b>	<b>37.0</b>			
Less: SPFA	<b>386.7</b>	<b>109.3</b>	<b>93.1</b>	<b>171.9</b>	<b>61.5</b>	<b>34.3</b>	<b>9.0</b>	<b>17.2</b>	<b>31.4</b>			
<b>DV remaining for unsecured</b>	-	<b>423.2</b>	<b>351.5</b>	<b>25.4</b>	<b>192.9</b>	<b>51.6</b>	<b>32.1</b>	<b>26.7</b>	<b>5.6</b>	<b>91.2</b>	<b>65.1</b>	<b>20.5</b>
<b>Unsecured claim recovery</b>												
Unsecured claim amount	3,762.8	2,911.0	2,297.9	3,940.6	2,461.7	2,683.4	2,349.5	2,577.7	2,652.0	2,217.8	2,217.8	2,215.1
Unsecured claim recovery	-	<b>423.2</b>	<b>351.5</b>	<b>25.4</b>	<b>192.9</b>	<b>51.6</b>	<b>32.1</b>	<b>26.7</b>	<b>4.5</b>	<b>91.2</b>	<b>65.1</b>	<b>20.5</b>
<b>Unsecured claim recovery (%)</b>	<b>0.0%</b>	<b>14.5%</b>	<b>15.3%</b>	<b>0.6%</b>	<b>7.8%</b>	<b>1.9%</b>	<b>1.4%</b>	<b>1.0%</b>	<b>0.2%</b>	<b>4.1%</b>	<b>2.9%</b>	<b>0.9%</b>

The sum of recovery rates across the debtor and all guarantors equals the total recover rate for the widely-guaranteed claims

**50.8%**

**Recoveries range from 0 to 100%**  
**On average, approx. 50% recovery expected**



Financial unsecured creditors not included in 'Noteholders' group

# Claims table and recovery – overview

Unique (Court) IDs		Debtor			Claim information			Guarantee detail			
A	B	C	D	E	F	G	H	I	J	K	L
Table Ordinal No.	CC char	Creditor ID (PIN, VAT, etc.)	Creditor name	EA debtor ID (OIB)	EA debtor name	Total filed claims (not withdrawn)	Determined claims (part of total filed claims)	Challenged claims (part of total filed claims)	Related guarantee claims:		
1,234	E	00000000001	CREDITOR 1	888,888,888	ENTITY 1	(HRK)	(HRK)	(HRK)	Guarantors / co-debtors	Determined claims	Challenged guarantees
5,678	D	00000000002	CREDITOR 2	999999999	ENTITY 3	102,718,080	102,718,080		(HRK)	(HRK)	
						376,905,261	376,905,261		ENTITY 17	-	376,905,261
									ENTITY 4	-	376,905,261
									ENTITY 1	-	376,905,261
									ENTITY 5	-	376,905,261
									ENTITY 80	-	376,905,261
									ENTITY 2	-	376,905,261
									ENTITY 79	-	376,905,261
									ENTITY 11	-	376,905,261
									ENTITY 78	-	376,905,261
									ENTITY 9	-	376,905,261
									ENTITY 7	-	376,905,261
Total Recovery						Amount filed			Guaranteed amount		
M	N	O	P	Q	R	S	T	Entitlement distribution			
Reinstated claims						Total recovery			Strips of new instruments		
Settlement made prior to voting	Reinstated claims at non viable entities (Cl. 23.2 and 23.5)	Reinstated claims at viable entities: (Cl. 23.1 and 23.5)	Debtor of reinstated claim	Entitlement allocation	Under Settlement Plan		Under liquidation scenario	Cash Out payment			
(HRK)	(HRK)	(HRK)		(HRK)	(HRK)	(%)	(%)	(HRK)	(HRK)	(EUR)	(#)
-	77,038,560	-	AISLE HOLDCO D.D.	3,734,20	80,772,762	78.6%	27.5%	-	-	-	0.000%
-				191,425,27	191,425,277	50.8%	23.2%	191,425,277	25,588,333.80	5,117,667	1.782%
Reinstated (unimpaired secured)				Entitlement of strips of new instruments				Actually issuance of strips of new instruments			

# Claims table and recovery – example for unsecured guarantee claim

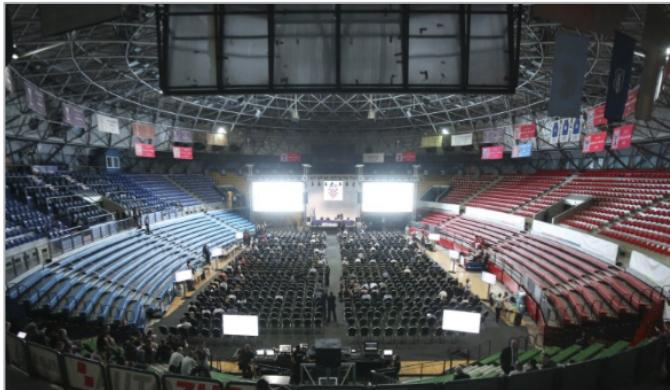
Table Ordinal No.	CC class	Creditor ID (PIN, VAT, etc.)	Claim information						(HRK)	(HRK)	(HRK)	Related guarantee claims:	Total recovery	Enrolment allocation	Under Settlement Plan	Under liquidation scenario									
			Creditor name	EA debtor ID (OIB)	EA debtor name	Total filed claims: (not withdrawn)	Determined claims: (part of total filed claims)	Guarantors / co-debtors																	
5,678	D	0000000002	CREDITOR 2	99999999	ENTITY 3	376,905,261	376,905,261	ENTITY 17 ENTITY 4 ENTITY 1 ENTITY 5 ENTITY 80 ENTITY 2 ENTITY 79 ENTITY 11 ENTITY 78 ENTITY 9 ENTITY 7	(HRK)	(HRK)	(HRK)	ENTITY 17 ENTITY 4 ENTITY 1 ENTITY 5 ENTITY 80 ENTITY 2 ENTITY 79 ENTITY 11 ENTITY 78 ENTITY 9 ENTITY 7	376,905,261	191,425,277	191,425,277	50.8%	23.2%								

## Annex 4 Annexes 19 / 20

DEBTOR / GUARANTOR	CLAIM / GUARANTEE (HRK)	UNSECURED DIRECT RECOVERY	IMPLIED RECOVERY (HRK)
ENTITY 3	376,905,261	0.0%	-
ENTITY 17	376,905,261	0.2%	639,508
ENTITY 4	376,905,261	7.8%	29,531,832
ENTITY 1	376,905,261	14.5%	54,807,896
ENTITY 5	376,905,261	0.6%	2,431,999
ENTITY 80	376,905,261	0.9%	3,494,903
ENTITY 2	376,905,261	15.3%	57,658,177
ENTITY 79	376,905,261	2.9%	11,070,808
ENTITY 11	376,905,261	1.0%	3,899,315
ENTITY 78	376,905,261	4.1%	15,492,351
ENTITY 9	376,905,261	1.4%	5,145,382
ENTITY 7	376,905,261	1.9%	7,253,107
<b>TOTAL</b>	<b>376,905,261</b>	<b>50.8%</b>	<b>191,425,277</b>

# The terms were approved on 4 July 2018 ...

The court session was held in the local basketball stadium



The judge presides over the session with one printed copy (>7,000 pages) of the settlement plan on the floor in front of her bench



The settlement plan was approved by 80.2% of Agrokor's creditors



# ... as one of the key events during Agrokor's Extra. Admin.

## Early April 2017

Too many eggs in one basket  
Agrokor, the supermarket whose collapse threatens the Balkans

**Start of April**  
Government declines request to finance group

**7 April**  
EA Act law enacted

**10 April**  
CEO Mr Todoric files for protection of Extraordinary Administration



**Mid April 2017**  
€80 million emergency funding raised from local banks

**June 2017**  
Super senior facility of €1.06 billion raised including 1:1 refinancing mechanism



**December 2017**  
Draft restructuring proposal presented - debt for equity swap resulting in the creditors owning 100% of the group



**February / March / April 2018**  
Various in-person advisors and all party meetings held in Split, Zadar and Zagreb



**May 2018**  
Deputy Prime Minister, Martina Dalić resigns amid continued pressure



**June/July 2018**  
Settlement plan submitted to court at the end of June and approved by over 80% of creditors in 4 July 2018 court hearing

## December 2018

Recognition of settlement in the U.S.

**May/June 2018**  
Various in-person advisors and all party meetings in Munich and Zagreb

**February 2019**  
Sanctioning of SPFA scheme

**1 April 2018**  
Implementation Commencement Date – Issuance of New Instruments and Transfer of Assets to Fortenova Group

# Contents

1. What are we going to talk about?
2. What did we do?
- 3. What were the lessons learned?**

# Success factors and challenges

## Success factors:

- ✓ Senior team, combining **multiple different fields of expertise**
- ✓ Good **relationship** with the **Commissioner**
- ✓ Adhering to **international standards** of (financial) restructuring
- ✓ Close **working** with **local subcontractors**
- ✓ Religious **cash management** focus
- ✓ Getting to the **heart of the businesses**
- ✓ Working **with the management team**, getting their **buy-in**
- ✓ **Acknowledging cultural differences**

## Challenges:

- ⚡ **Press** with tremendous **influence on the business and development of the restructuring plan** (and partially on us)
- ⚡ **Local suppliers** (regularly)
- ⚡ **Mr Todoric** and his blog
- ⚡ **Change of EA**
- ⚡ Working on **looking forward** while the **past** was remained a focus

# Lessons learned from a legal point of view

## Going Concern



Liquidation and breaking up a group are not inevitable, even in an initially unfavourable economic situation.

As the extraordinary administration procedure aims at keeping the company alive, advisors could be engaged to get the company back on track.

## Consolidation



Procedural consolidation is possible and increases the efficiency of the insolvency procedure.

By developing and applying an Entity Priority Concept, the entity-by-entity based recovery of each creditor could be calculated exactly.

Calculation of recovery in individual proceedings would have been challenging due to intercompany relationships and guarantees.

## Payment of Pre-Petition Claims

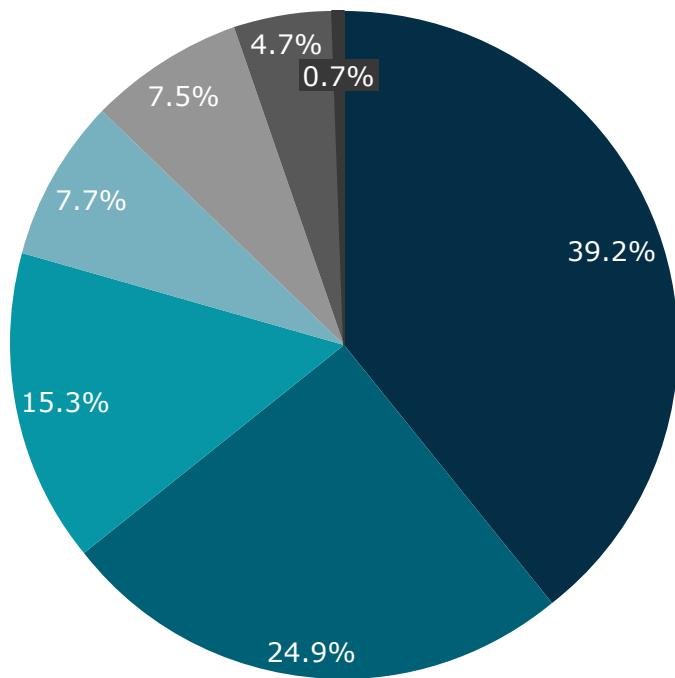


Settling certain pre-petition claims in an insolvency procedure does not necessarily worsen the recovery of other creditors.

On the contrary such payments helped to preserve value for all stakeholders.

# Potential broader economic crisis has been avoided

Ownership structure of the new group by creditor groups



New extraordinary administration act successful



Financial support from government: ZERO



2017 tourist season saved and 2018 season delivered on plan



100% return to over 2,000 local micro suppliers

Sberbank	Other	Other
Bondholders	VTB bank	
Domestic	Suppliers	