

Ineos Quattro Drop Down Analysis

Baskets available under the credit documentation that permit assets to be removed from the restricted group

Summary conclusion

A review of Ineos Quattro's 2030 Note terms and conditions provides a preliminary conclusion that there is sufficient flexibility to move assets with a value of circa €2.0 billion out of the restricted group.

Those assets would no longer form part of the collateral pool supporting existing creditors and would be free to act as collateral for new debt thereby impairing the value of existing creditors. This “drop down” mechanism gives Ineos a route to raising new finance or using the threatened possibility as material negotiating leverage in advance of any restructuring.

Context

This is a preliminary review of the clauses in the credit documentation that permit assets to be moved outside Ineos Quattro's restricted group.

Assets within the restricted group act as collateral for existing creditors and the general rule imposed by various restrictive covenants is that those assets cannot be removed. There are various “basket” exceptions within those covenants most of which only apply if the company is doing well financially (e.g. the group's credit rating is upgraded to investment grade). However, some of the general baskets are available up to a material value regardless of the group's current stressed financial position.

Using the credit terms in this manner in the context of financial stress to free up collateral is referred to as a “drop down” and is a form of a liability management exercise “LME”. Because the company is not renegotiating the terms of the existing debt an LME is not a restructuring but in practice is often a precursor to a restructuring. It puts legacy creditors who do not participate in any proposed newly secured debt in a weaker position in the run up to a possible restructuring.

Analysis of the baskets and value available to move assets out of the restricted group

A] Designate a restricted subsidiary as unrestricted

The *Limitation on Unrestricted Subsidiaries* covenant permits Ineos Quattro to designate a subsidiary as unrestricted “Designation” but only in limited circumstances.

If the circumstances are met and a restricted subsidiary is designated as unrestricted there are two key consequences: Firstly; under the *Release of Guarantees* section, the effect is to automatically and unconditionally release a guarantee given by that Subsidiary Guarantor. Secondly; under clause (d) of *Release of Security*, the effect is to automatically and unconditionally release liens over the subsidiary's property, assets and capital stock.

The result is that where the circumstances allow a restricted subsidiary to be designated as unrestricted that subsidiary and its assets cease to be encumbered and part of the collateral pool for existing creditors.

The general rule is that a restricted subsidiary cannot be designated as unrestricted. The source for this general rule is that under the *Limitation on Unrestricted Subsidiaries* covenant a Designation is treated as an investment.

Under clause (a) of *Limitations on Restricted Payments*, an investment is a restricted payment and is prohibited unless it falls within one of three general exceptions: *Permitted Investments* under clause (a), *allowed restricted payments* under clause (b), or *Permitted Payments* under clause (c).

Each of these three general exceptions in turn include multiple routes or “baskets” that allow a restricted payment as an exception to the general rule prohibiting them. Many of the baskets have an upper limit in terms of value.

The *Limitation on Unrestricted Subsidiaries* covenant allows Designation where at the time of designation, the available capacity under the three general exceptions is sufficient to cover the value of the subsidiary being Designated. The value of the subsidiary is the higher of its net book value and fair market value.

Most of the basket exceptions don’t apply or are not relevant but two of them do apply which are:

1. *Permitted Investments, clause (p)*. This permits investments up to the greater of €500m and 5% of total consolidated assets, measured cumulatively for investments made under clause (p). Based on the Q2 June 2026 accounts 5% of total consolidated assets, was €618m.
2. *Permitted Payments, clause (c)(12)*. This permits restricted payments up to the greater of €425m and 5% of total consolidated assets, measured cumulatively for payments made under clause (c)(12). Based on the Q2 June 2026 accounts 5% of total consolidated assets was €618m.

Two other baskets initially appear like they might be relevant but don’t apply because they are only allowed if the Group satisfies certain financial health ratio tests which at present would not be met.

The basket under *Allowed restricted payments, clause (b)(2)* is contingent on the ability to incur additional debt under clause (a) of the *Limitation on Indebtedness* covenant. That clause requires a *Fixed Charge Coverage Ratio* of at least 2.00:1.00 - which is effectively Adjusted EBITDA divided by Interest Expense. Based on the Q2 30 June 2026 accounts the ratio was approximately 1.65:1.00 so too low for the basket to be available.

The basket under *Permitted Payments, clause (c)(16)* is contingent on the *Consolidated Total Net Leverage Ratio* being no greater than 1.75:1.00 – which is effectively Consolidated Net Debt divided by Adjusted EBITDA. At 30 June 2026, the ratio was 6.4x so too high for the basket to be available.

B] Sell assets from a restricted subsidiary to an unrestricted subsidiary in return for shares

Clause (a) of the *Limitation of Sale of Assets* covenant sets out the general prohibition on asset sales. Clause (a)(1) provides two distinct exceptions: a permitted asset swap, which is not relevant to this route, and a sale in which at least 75% of the consideration is received in cash. Further clause (a)(2) also requires consideration equal to the fair market value of the assets sold. At first glance this exception doesn't look very promising given the requirement to receive cash at the market value of the assets sold.

However, clause (g) allows certain non-cash consideration to be treated as cash for the purpose of the above 75% requirement. The relevant basket is clause (g)(5) which allows non-cash consideration received by a restricted subsidiary to be designated as *Designated Non-Cash Consideration* and deemed to be cash. The cumulative fair market value that can be so designated under this clause cannot exceed the greater of €425m and 5% of Total Assets. Based on the Q2 June 2026 accounts 5% of total consolidated assets was €618m

The total value of assets that could be “sold” (effectively transferred out of the restricted group for no cash consideration) using this basket is therefore four-thirds of the applicable limit. That would be €567m using the €425m fixed amount or €824m using the higher consolidated asset figure.

C] Total value of the available baskets.

Assuming the Q2 June 2026 figures are used to calculate allowed amounts the total value of baskets available to transfer assets out of the restricted group is:

Permitted Investments under clause (p): €618m.

Permitted Payments under clause (c)(12): €618m

Limitation of Sale of Assets under clause (g) (5): €824m

Total: €2,060m

Limitations and qualifications of this preliminary review

This is a preliminary analysis and would need to be confirmed by a suitably experienced legal team.

Quattro's €7.3bn capital structure comprises seven senior secured pari passu loan and bond issues all of which are subject to a single intercreditor agreement with the benefit of guarantees on group subsidiaries representing circa 95% of group adjusted EBITDA.

This review is based on the terms and conditions as set out in the Offering Memorandum dated 23 October 2024 for the €675m 6.75% Senior Secured Notes due 15 April 2030 (the 2030 Notes).

Only the 2030 Notes terms have been reviewed. For the drop-down to work, the necessary basket exceptions must exist under all the other debt issues which have their own terms. This is because the Security Agent holds collateral in common for all the loans and bonds and can only release liens if permitted under all the issues.

The Offering Memorandum describes the negative covenants (which contain the basket exceptions) in the other notes and loans as “substantially similar” to those in the 2030 Notes. It is likely that the terms of those other issues will be the same but this needs to be confirmed.

The baskets discussed above could have already been partly used. There is no indication they have been used, which if they had would have resulted in notification to the creditors and would likely have been reported in the news, but this needs to be confirmed.

There are other possible routes that might result in the ability to extract value away from the restricted group / existing creditors relating to permitted receivables financing and disposals to joint ventures that have not been reviewed by this exercise.

The 2030 Notes are subject to New York law. The other credit documents are therefore likely to also be subject to New York law. The parent and many subsidiaries are incorporated in the UK or Europe, where the assets are also located. This means any dispute about the application of the credit terms / LME exercise would likely be US based but any possible future restructuring would most likely be UK / Europe based.