

# Alpcot Agro



**Annual General Meeting – 13 May 2009**

# Proposal for Agenda

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1. Opening of the meeting
2. Election of chairman for the meeting
3. Preparation and approval of the voting list
4. Approval of the agenda for the meeting
5. Election of one or two persons to, besides the chairman, approve the minutes of the meeting
6. Decision as to whether the meeting has been duly convened
7. Presentation of the annual report and auditor's report as well as the group accounts and the auditor's report for the group
8. Resolutions regarding:
  - a) approval of the profit and loss account, balance sheet, the consolidated profit and loss account and consolidated balance sheet
  - b) allocation of the Company's result as set forth in the adopted balance sheet, and
  - c) discharge of liability for members of the board of directors and the managing director; 1. regarding Carl Aschan for the time period 1 January-24 September and 2. regarding Björn Lindström for the time period 24 September-31 December.
9. Determination of the number of members of the board of directors and, if applicable, deputies
10. Resolution on remuneration of the board of directors and auditor
11. Election of members of the board of directors and, if applicable, deputies
12. Resolution regarding authorization for the board of directors to issue shares, convertibles and/or warrants
13. Resolution regarding principles for appointment of the election committee
14. Closing of the meeting

# Income Statement in short

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- Revenue for 2008 amounts to **SEK 30 million**
  - as at the y/e only about 15% of 2008 harvest was sold
  - most of 2008 harvest was sold in February – April 2009 when the prices were significantly higher than in 4Q of 2008
- Gain from revaluation of biological assets for **SEK 37 million** relates to winter seeded grain in Russian and Ukraine on more than **55,000 ha**
- Negative gross profit of **SEK 1 million** driven by
  - historical low prices in 4Q 2008
  - high cost of production of SEK 55 million due to
    - a. **first year harvest** on the previously abandoned land at many farms resulting in high plant protection and land cultivation costs
    - b. extra costs on harvesting and transportation of grain due **to use of contractors**
    - c. additional **SEK 24 million** for putting **previously abandoned land** into operation for winter seeding 2008 at Kursk and Tambov region
- Operating result – **negative SEK 111 million** driven by
  - other external costs of SEK 65 million, including management fee and group level overheads
  - personnel costs overheads of SEK 24 million
  - depreciation and amortization of SEK 21 million
- Net loss for 2008 amounts to **SEK 96 million** and Earnings per share amounts to SEK -3.77

# Consolidated accounts – Income Statement

	2008	2007
Revenue	30,267	15,374
Gains (losses) from changes in fair value of biological assets	37,457	(138)
Government grants	10,309	-
Cost of goods sold	(55,334)	(17,250)
New areas and fallow land cultivation costs	(23,564)	(2,420)
<b>Gross profit</b>	<b>(865)</b>	<b>(4,434)</b>
Other external costs	(65,232)	(14,256)
Personnel costs	(23,799)	(4,985)
Depreciation and amortization of tangible and intangible assets	(21,439)	(3,408)
<b>Operating result</b>	<b>(111,335)</b>	<b>(27,083)</b>
Income/loss from investments, net	(13,737)	295
Interest income and similar items	23,366	4,907
Interest expense and similar items	(4,262)	(79)
<b>Result before tax</b>	<b>(105,968)</b>	<b>(21,960)</b>
Tax	9,876	3,184
<b>Net loss</b>	<b>(96,092)</b>	<b>(18,776)</b>

**Note:** All numbers are in thousands SEK

# Balance Sheet in short

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## Assets

- Tangible fixed assets for **SEK 401 million** is mainly Western machinery and equipment
- Most of **land** is in the process of registration and disclosed in the accounts as other financial assets for **SEK 300 million**
- Intangible fixed assets for **SEK 39 million** mainly include **land lease rights**
- Inventory balance for **SEK 161 million** is mainly 2008 harvest that was sold during Feb – April 2009
- Biological assets for **SEK 84 million** represent the y/e valuation of **winter seeded grain** according to IFRS
- Other receivables include **SEK 70 million** of **VAT recoverable** from the budget
- **Cash balance** at the y/e is **SEK 106 million**

## Equity and liabilities

- Total shareholder's equity amounts to **SEK 1,207 million**
- Total liabilities as of 31 December 2008 amount to **SEK 173 million**
  - Short-term liabilities of SEK 74 million
  - Differed tax liabilities of SEK 17 million
  - Long-term loans of SEK 39 million

# Consolidated accounts – Balance Sheet

	31/12/08	31/12/07		31/12/08	31/12/07
<b>Non-current assets</b>			<b>Shareholders' equity</b>		
Tangible fixed assets	401,492	65,828	Share capital	(146,904)	(76,204)
Ongoing constructions	25,132	-	Share premium reserve	(1,183,373)	(753,809)
Intangible fixed assets	39,295	34,353	Retained earnings and other reserves	123,339	19,797
Biological assets	14,514	944	<b>Total shareholders' equity ex minority</b>	<b>(1,206,938)</b>	<b>(810,216)</b>
Equity investments, securities and other financial assets	300,495	117,871	Minority interest	(301)	-
Deferred tax assets	20,829	4,522	<b>Total shareholders' equity</b>	<b>(1,207,239)</b>	<b>(810,216)</b>
<b>Total non-current assets</b>	<b>801,757</b>	<b>223,518</b>	<b>Non-current liabilities</b>		
<b>Current assets</b>			Other non-current liabilities	(38,860)	(2,587)
Inventory	161,320	10,296	Deferred tax	(16,631)	(10,151)
Biological assets	83,622	14,738	<b>Total long-term liabilities</b>	<b>(55,491)</b>	<b>(12,738)</b>
Trade and other receivables	9,230	7,836	<b>Current liabilities</b>		
Taxes receivable	264	20	Tax liabilities	(117)	(11)
Other receivables	174,770	414,768	Other liabilities	(5,917)	(11,204)
Cash and cash equivalents	105,620	186,593	Trade payables	(42,796)	(3,855)
<b>Total current assets</b>	<b>534,826</b>	<b>634,251</b>	Short term loans	(18,136)	(567)
			Accrued expenses and provisions	(6,887)	(19,178)
			<b>Total current liabilities</b>	<b>(73,853)</b>	<b>(34,815)</b>
<b>Total assets</b>	<b>1,336,583</b>	<b>857,769</b>	<b>Total liabilities and shareholders' equity</b>	<b>(1,336,583)</b>	<b>(857,769)</b>

**Note:** All numbers are in thousands SEK

# Consolidated accounts – Cash Flow statement

	2008	2007
<b><i>Operating activities</i></b>		
Cash received from debtors	27,750	12,692
Cash paid to suppliers and personnel	(313,951)	(72,867)
<b>Cash flow used in operations</b>	<b>(286,201)</b>	<b>(60,175)</b>
Interest received	11,974	5,133
Interest paid	(147)	-
Income tax paid	(252)	(28)
<b>Net cash used in operating activities</b>	<b>(274,626)</b>	<b>(55,070)</b>
<b><i>Investing activities</i></b>		
Acquisition of subsidiaries, net of cash acquired	(27,599)	(35,750)
Acquisition of land	(183,837)	0
Acquisition of other tangible & financial fixed assets	(391,786)	(168,844)
Sale of fixed assets and intangible assets	277	390
Change in loan receivables	(72,611)	(17,944)
<b>Cash flow from investing activities</b>	<b>(675,555)</b>	<b>(222,148)</b>
<b><i>Financing activities</i></b>		
Proceeds from share issue	843,102	468,012
Other paid in capital	0	2,000
Proceeds from loans, repayment of loans, net	24,577	(7,509)
<b>Cash flow from financing activities</b>	<b>867,680</b>	<b>462,503</b>
<b>Net (decrease)/increase in cash and cash equivalents</b>	<b>(82,502)</b>	<b>185,285</b>
<b>Cash at the beginning of the year</b>	<b>186,593</b>	<b>0</b>
<b>Exchange differences in cash</b>	<b>1,529</b>	<b>1,308</b>
<b>Cash at the end of the year</b>	<b>105,620</b>	<b>186,593</b>

**Note:** All numbers are in thousands SEK

# The Year in Brief

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- Alpcot Agro moved its headquarters from Stockholm to Moscow in the fourth quarter of 2008.
- The Company successfully completed a share issue of around SEK 520 million in May 2008. Alpcot Agro has issued convertible instruments in the beginning of 2009 raising SEK 65 million.
- During the year, Alpcot Agro gained control of land in two additional regions in Russia, Kurgan and Kursk. At the end of the year the Company controlled about 135,000 hectares and owned, primarily through land certificates, about 84,000 hectares in Russia.
- Alpcot Agro established operations in Ukraine in 2008.
- Total investments in land acquisition during 2008 amounted to SEK 184 million and acquisition of subsidiaries amounted to SEK 28 million. Investments in new machinery, equipment and facilities during the year amounted to SEK 327 million.
- The total harvest for Alpcot Agro amounts to 150,100 tonnes in 2008. The total harvested area was 55,600 hectares.
- The winter planting 2008 amounts to 55,400 hectares, of which 4,600 hectares in Ukraine.

# Operational Background

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- Russia has harvested more than 108 million tonnes of grain in net weight in 2008 compared to 82 million tonnes of grain in 2007
- Bumper harvest was due to a number of factors:
  - Favourable weather
  - Introduction of modern technologies
  - Area planted expanded by 2 million hectares
  - Favourable financing conditions in 2007/2008
- The cold and rainy summer led to low quality grain for most farmers, hence fodder wheat instead of milling wheat
- The supply shock in wake of the harvest and the tough financing conditions have led to historically low prices
  - Analysts estimate Russia has a surplus of about 30 million tonnes

# Operational Update –Planting 2008/2009 Russia

## Winter planting 2008

Region	Winter wheat	Winter rye	Winter rape	Total winter seeding, ha
Voronezh	17,400	3,300	400	21,100
Volgograd	6,200			6,200
Tambov	5,800			5,800
Kursk	9,700	1,500		11,200
Kurgan				
Lipetsk	6,500			6,500
<b>Russia total</b>	<b>45,600</b>	<b>4,800</b>	<b>400</b>	<b>50,800</b>

- Winter planting completed according to plan
  - Condition of winter crops is better than last season
- All winter crops have been fed with additional fertilizer

## Spring planting 2009

Wheat	Barley	Sun-flower	Silage	Corn	Others	Total spring seeding, ha
200	300	6,640	3,562	1,533	70	12,305
		805				805
		2,000				2,000
2,000						2,000
700						700
700	1,310		2,851		600	5,461
<b>3,600</b>	<b>1,610</b>	<b>9,445</b>	<b>6,413</b>	<b>1,533</b>	<b>670</b>	<b>23,271</b>

- A plan for spring planting has been prepared to consider Alpcot Agro's financial position
- Spring planting in non-core areas are scaled down to an absolute minimum
- Alpcot Agro also seeded about 6,000 ha of mustard that is used as green fallow to improve the land quality

# Operational Update – Dairy Business

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- Investments in dairy business is a key to sustain good relations with local authorities
- Alpcot Agro has three dairy farms in Lipetsk and Voronezh
  - Berezovskoe in Vorobyevka, Voronezh
  - Yacheika in Ertil, Voronezh
  - Kolebelskoe in Chaplygin, Lipetsk (50% ownership)
- Synergies between dairy farms and crop production
  - Fodder for the dairy farms can be grown on Alpcot Agro's land
  - The manure is a highly efficient and ecologically friendly fertiliser
  - Disposal of by-products and low quality products
- Subsidised sector
  - Subsidies for new equipment and new livestock
  - Interest rate subsidies
  - New federal subsidies discussed under 2009 to support sector further
- Operational performance is improving after introduction of experienced management in January 2009
  - Average daily milk production (including 100% of Kolibelskoye) in April 2009 amounted to 27,713 kg (final weight). The corresponding number for January 2009 was 19,682 kg.
  - Average price per kg milk in April 2009 was RUR 8.47 (USD 0.26).
  - Average daily revenue from the milk production in April was RUR 242,200 (USD 7,339).
  - Total revenues from milk production amounted to RUR 7.27 million (USD 0.22 million) in April 2009.

# Operational Update – Ukraine

## Winter planting 2008

Region	Winter wheat (ha)	Total land under control (ha)
Poltava	2,000	2,000
Volyn	1,600	1,600
Ivano-Frankivsk	600	600
Lviv	350	350
<b>Ukraine total</b>	<b>4,550</b>	<b>4,550</b>

## Spring planting 2009

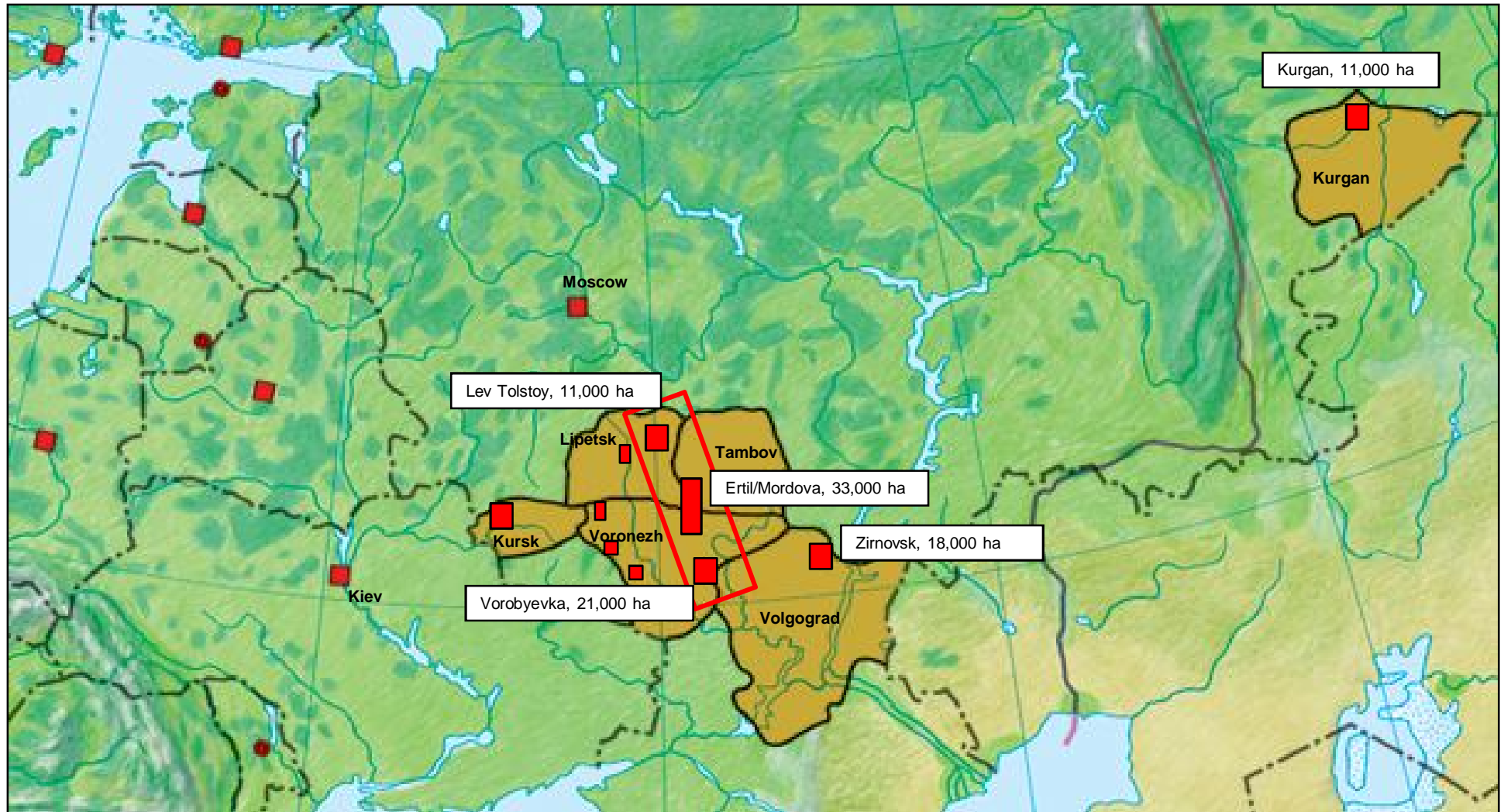
Region	Spring crops - wheat, soya, mustard, buckwheat (ha)
Ivano-Frankivsk	750
Lviv	948
<b>Ukraine total</b>	<b>1,698</b>



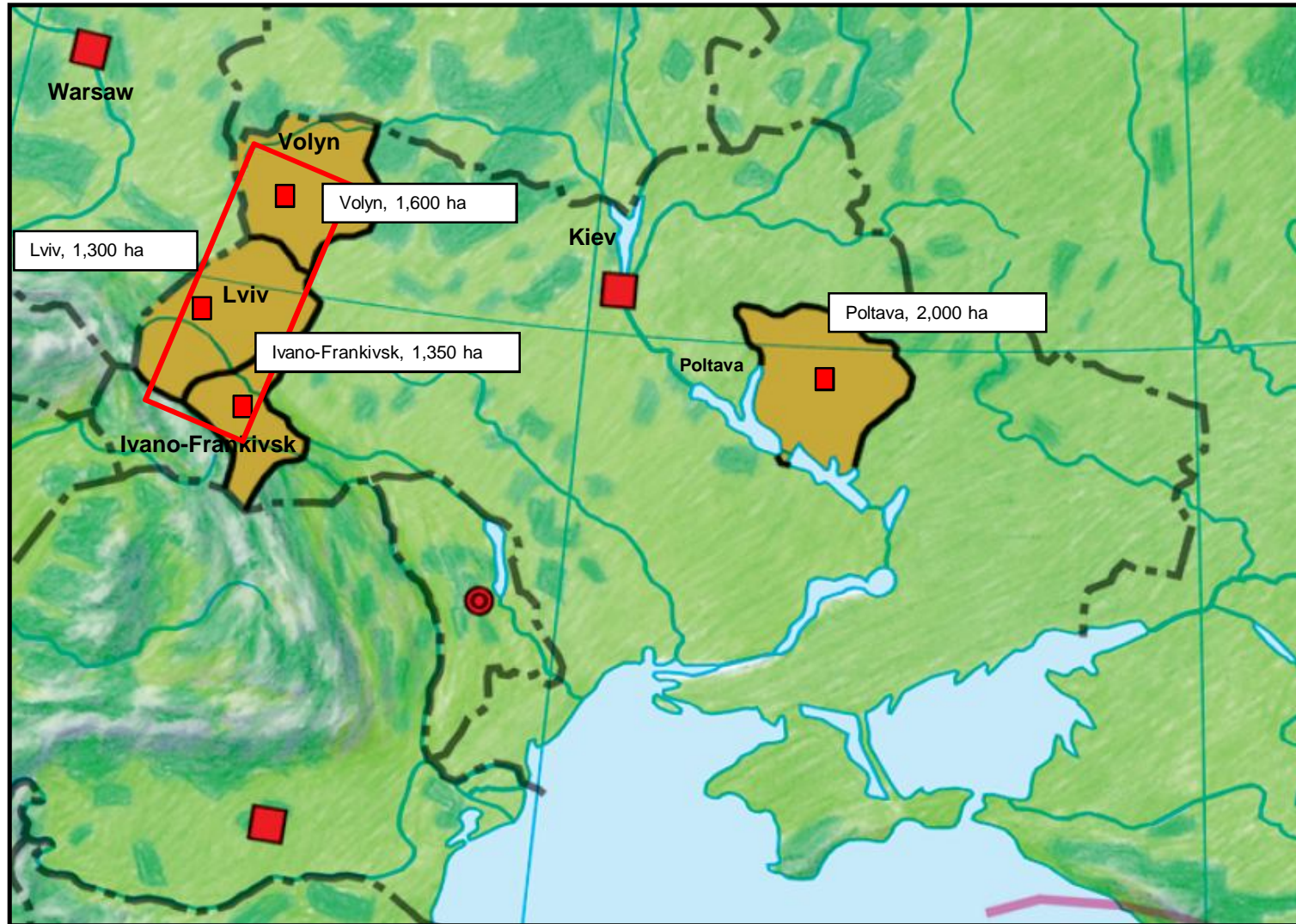
Picture : Winter wheat in Ivano-Frankivsk in May 2009

- All lease agreements are signed directly with the land owners
  - Lease agreements are currently being finalised or are already under registration
- Alpcot Agro Ukraine has planted winter wheat on all its controlled land in Ukraine
  - Based on historical yields in these regions and on current climate conditions, Alpcot Agro is expecting to harvest at least 4 – 5 tons per ha during its first year of operations. Due to good quality of seeds and fertilisers which have been applied, good quality crop can be expected.
  - Soil moisture and temperatures through the Ukraine has favored winter wheat this season.

# Focus Areas – Russia



# Focus Areas – Ukraine



# Strategic Review – Results

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- Due to scarcity of capital the long-term target for Alpcot Agro's land bank in Russia has been reduced from 200,000 hectares to 120,000 – 150,000. The Company will engage in buying, selling and swapping land to optimise the land structure given the reduced target.
- The Company has implemented a number of cash preservation measures to minimise potential future capital requirements.
- Alpcot Agro is optimising its organisation, moving the headquarters from Stockholm to Moscow to reduce the distance from the top management and the operations.
- Alpcot Agro will separate its operations in Ukraine and distribute its Ukrainian operations to its shareholders. Target date for the spin-off is early autumn 2009.
- Alpcot Agro will eliminate the fund structure, replacing the annual management fee by a fixed fee to its Investment Manager Alpcot Capital Management Ltd. The management fee will be reduced by SEK 11 million and ACM will be compensated in shares, warrants or a combination of both.
- A listing on First North is high priority and preparations will start during summer 2009.

# Strategic Review – Revised Geographical Structure

## ■ Criteria for evaluating land bank

- Geographical stretch from South to North
- Sunk cost considerations
- Expansion options
- Profitability considerations
- Burn rate (Kurgan)
- Political considerations
- Location of dairy farms

## ■ Long-term implications

- Reduction of long-term land bank target from 200,000 to 120,000 – 150,000
- Improve geographical structure of land bank including sale of land in non-core land plots
- Controlled expansion in Alpcot Agro's defined core areas when cash is made available from creditors or sale of non-core land

### Breakdown of land in April 2009

Region	Land in control (ha)	Land in ownership (ha)	Registered (ha)
Voronezh	61,000	32,000	6,600
Volgograd	18,000	3,000	
Tambov	12,000	8,000	1,000
Kursk	20,000	23,000	2,200
Kurgan	11,000	8,000	
Lipetsk	13,000	10,000	2,300
<b>Russia total</b>	<b>135,000</b>	<b>84,000</b>	<b>12,100</b>

### Effect of land restructuring

Region	Current land (ha)	Non-core land (ha)	Core land (ha)
Voronezh	61,000	19,000	42,000
Volgograd	18,000	0	18,000
Tambov	12,000	0	12,000
Kursk	20,000	20,000	0
Kurgan	11,000	0	11,000
Lipetsk	13,000	2,000	11,000
<b>Russia total</b>	<b>135,000</b>	<b>41,000</b>	<b>94,000</b>

# Strategic Review – Cash Preservation Measures

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- Close-down of Alpcot Agro's office in Stockholm estimated to annually reduce cost by SEK 6-8 million
  - Most functions now carried out by Alpcot Capital Management Ltd ("ACM")
- Staff reduction plan is being implemented
  - The staff in Russia has been reduced by about 300 to about 1,000 in 2009
  - Staff will be reduced further if some legal entities are sold
- Other cash preservation and cash generating measures are taken if they are sensible
  - Alpcot Agro is planning to rent storage capacity in Russian elevators for the harvest 2009
  - Contractors can be used for some steps in the production chain
  - Co-operation with other farming companies
  - Credits from Russian banks with subsidised interest.
  - Reclaim Value Added Tax. The process is slow and unpredictable
  - Non-core assets can be sold
  - Reduction of administration expenses

# Strategic Review – New Organisation

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- Headquarters moved from Stockholm to Moscow
  - Management functions will mainly be transferred to the new Moscow office (closer to operations)
- Alpcot Agro to rent new premises in Voronezh to concentrate production resources
  - Production centre in Voronezh
- ACM's responsibilities
  - ACM is taking a considerable operational responsibility
  - ACM manages the acquisition/divestment process
  - ACM is responsible for financing and Investor relations
- New treasury company in Luxembourg
  - Treasury company incorporated in December 2008

# Strategic Review – Separation of Ukrainian Operations

- The current size of the operations in Ukraine is too small
  - Alpcot Agro halted all investments in August 2008
  - Further investments are required
- Alpcot Agro has three options
  - Further expansion
  - Sale
  - Liquidation
- Alpcot Agro is not the optimal vehicle to raise cash for investments in Ukraine
  - Spin-off and separate financing the best option for Alpcot Agro's shareholders
- Lean strong corporate structure
  - All companies newly incorporated under supervision of ACM
  - All team members are carefully selected by ACM
- Positioned to cost efficiently expand land bank and operations
  - Good value for money in today's market



*Picture: Agrokultura Poltava has planted 2,000 ha of winter wheat in Poltava in autumn 2008*