

Annual Report 2008



Alpcot Agro 

The year in brief

- The Company changed its name from Alpcot Russian Land Fund AB to Alpcot Agro AB in May 2008. The purpose of the name change is to clarify the line of business and emphasise the Company's long-term operational objectives.
- Alpcot Agro moved its headquarters from Stockholm to Moscow during the fourth quarter of 2008 to reduce the geographical distance between the management and the operations. The closure of the Stockholm office was finalized early 2009.
- Björn Lindström became Chief Executive Officer on 24 September 2008.
- Carl Aschan left the board and Catharina Lagerstam and Otto Ramel joined the board of directors on 13 May 2008, while Torbjörn Ranta left the board of directors on 17 September 2008.
- At the end of the year the Company had 1,285 employees. A Chief Financial Officer, Alexey Mashchenkov, started at the Alpcot Agro's new head office in Moscow on 1 October 2008.
- The Company successfully completed a share issue of around SEK 520 million before issue costs in May 2008. Another share issue of 140,000 shares was also completed in May 2008 to fulfil the Company's undertaking in connection with a purchase and sale agreement. The Company 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. Thereby, the Company controls land in six regions in Russia; Kurgan, Kursk, Lipetsk, Tambov, Volgograd and Voronezh. 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. The Company's operations in Ukraine are split between two areas, the central cluster in Poltava region and the western cluster in the Ivano-Frankivsk, Lviv and Volyn regions. Alpcot Agro controls in total about 4,600 hectares in Ukraine as of the end of 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, of which 45 per cent was winter planted in 2007 and 55 per cent planted during the spring of 2008.
- The winter planting 2008 amounts to 55,400 hectares, of which 4,600 hectares in Ukraine. Of the total planted area more than 50,000 hectares is winter wheat.

The shareholders in Alpcot Agro AB (publ), 556710-3915, ("the Company" or "Alpcot Agro") have been, given notice to attend the Annual General Meeting on 13 May 2009 at 4.30 p.m. in the premises of Delphi Advokatbyrå, Regeringsgatan 30–32, Stockholm, Sweden.

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Alpcot Agro AB (publ)

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This is an unofficial translation of the Company's Swedish annual report. In the event of any discrepancy between the Swedish original text and this English translation, the Swedish text shall prevail.

Alpcot Agro in brief

BUSINESS CONCEPT

To generate an attractive return on invested capital by acquiring and farming agricultural land in Russia and other CIS states.

HISTORY

Since the Company was founded in 2006 by Alpcot Capital Management ("ACM"), Alpcot Agro has expanded at a fast rate. From the Company's operational launch in January 2007 until today, the Company has gained control of 135,000 hectares of agricultural land in Russia and an additional 4,600 hectares in Ukraine. The Company currently has about 1,035 employees. The strategic plan has been revised during 2008 to reflect the new market conditions and the focus has shifted towards consolidation and cash flow generation.

ORGANISATION

The Company has operations in six regions in Russia – Kurgan, Kursk, Lipetsk, Tambov, Volgograd and Voronezh – and four regions in Ukraine – Ivano-Frankivsk, Lviv, Poltava and Volyn. The Company's head office is located in Moscow.

Under a management agreement, the Company has access to ACM as an investment manager. ACM constitutes an integrated part of Alpcot Agro's top management and ACM's main responsibilities include sourcing of investment opportunities, implementation of investment decisions, recruitment of key personnel, financial planning, and overall strategic issues.

INVESTMENT STRATEGY

The Company's land investment plans have been revised in 2008. The long term target for the land bank in Russia has been reduced to 120,000–150,000 hectares. The focus is now to optimise the geographical structure of the land bank through selective acquisitions, sales and swaps. Alpcot Agro is mainly using Western farming equipment with only a limited amount of Russian equipment where this is economically justified. Alpcot Agro will continue to invest in modern machinery and equipment.

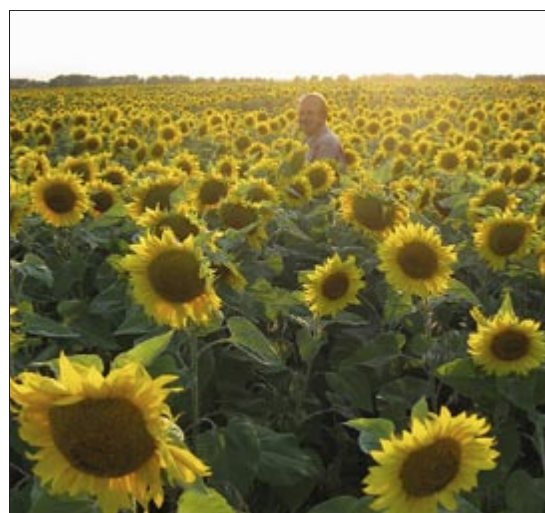
OPERATIONAL STRATEGY

Alpcot Agro's strategy is to operate an efficient, modern agricultural business according to international best practices. The Company's value chain has three parts: crop production, storage and sales.

When Alpcot Agro gains control of farmland the Company starts to focus on improving the yields by increasing the use of modern machinery, equipment and agricultural techniques. Access to storage capacity is an important element of Alpcot Agro's value chain as it allows the Company to sell its harvest during the winter when the prices are usually higher than during the harvesting period. The Company is constantly improving its own central sales organisation and sees further potential in increasing the the sales revenues.



Cultivation in Ukraine



Chief Agronomist Dietmar Schmidt inspecting the sunflowers

CEO's comments

I became CEO of Alpcot Agro in September 2008. As one of the founders of Alpcot Agro besides Peter Geijerman and Katre Saard, I know the Company quite well.

2008 has been a year full of shifting challenges. Alpcot Agro's focus in the beginning of 2008 was to expand and rapidly increase the land under control in harsh competition with other companies in Russia and Ukraine. The Company's efforts to create shareholder value by expansion of its operations in both Russia and Ukraine came to an abrupt end in the summer 2008, due to a number of coinciding events.

The Russian economy, which is heavily dependent on commodities, was hard hit by the collapse in the oil price. The military conflict between Georgia and Russia in August triggered a political crisis internationally. Foreign investors' concerns for corporate governance also increased, and even Russia optimists were on the defensive, at least temporarily. The agricultural sector was negatively affected by the global turmoil and the market for grains was also weighed down by excess supply from the 2008 record harvest of 108 million tonnes in Russia, compared to 82 million tonnes in 2007.

As the investment outlook in Russia and neighbouring countries worsened dramatically during the autumn and the prospects to finance further expansion by share issues or credits deteriorated in line with plummeting stock markets in Eastern Europe, the foundation for Alpcot Agro's rapid expansion evaporated.

The management and the Board of Directors adjusted to the worsening market conditions at an early stage and initiated a strategic review to revise the Company's long-term objectives. As a result of the strategic review, the Company decided to reduce the long-term target for the land bank in Russia to 120,000–150,000 hectares. The Company controls 135,000 hectares in Russia today, but in order to obtain an optimal geographical structure of the land bank, both divestments and acquisitions of farms are required.

We are at the same time putting in a lot of efforts into obtaining the title to all the land the Company is farming by converting indirectly owned land through land certificates, so called pais, to directly registered land. Alpcot Agro is in the process of separating the Ukrainian operations from the



Harvesting wheat

Russian operations, an undertaking which will be completed shortly. The conclusion from the strategic review is to finance the future expansion in Ukraine by attracting additional capital to the Ukrainian operations separately from Alpcot Agro.

Furthermore, as a consequence of the strategic review in 2008 an ambitious programme of improving operational efficiency and reducing costs was initiated. It is our aim to list the Company's share on an authorised market place before the end of 2009 provided that the strategic plan develops according to our expectations.

I would also like to point out the operational achievements by Alpcot Agro's hardworking employees. To harvest 150,000 tonnes on 55,600 hectares and to winter plant 55,300 hectares in the second financial year is an astonishing result.

Hard times are not all bad; there are many opportunities as well. Following the additional capital of SEK 65 million, which Alpcot Agro raised in the beginning of 2009 in connection with the issue of convertible instruments, the Company is in a good position to carry out the strategic plan and thereby create the foundation of a successful and profitable company when the markets recover. Because recover they will.

A handwritten signature in black ink that reads "Björn Lindström". The signature is fluid and cursive.

Björn Lindström
Chief Executive Officer

Russia economy and politics

ECONOMY

Fuelled by a rally in commodities in the first part of the year, Russia's main stock indices hit all time highs in May 2008. As the global financial crisis unravelled later in the year, the sharp declines in commodities prices, in particular oil, hit the Russian financial markets hard. Combined with a deleveraging and flight to safety on behalf of investors, the developments had a significant impact on asset prices and the Russian stock markets closed down more than 70 per cent over the year.

The financial crisis has led to a sharp deterioration in economic fundamentals with GDP expected to decrease by 3 per cent in 2009. Declining oil prices and capital flight further put pressure on the Russian Rouble and the Central Bank spent a significant

part of its reserves in order to manage a controlled gradual depreciation over the course of the autumn 2008 and beginning of 2009. The looming spectre of a fiscal and current account deficit also resulted in a credit downgrade by S&P of Russia's foreign currency credit rating from BBB+ to BBB in December 2008. The Rouble stabilized in February 2009 and enjoyed a small bounce in March 2009, driven by an upward trend in oil prices.

In addition to a range of measures targeted to provide liquidity and refinance external debt, the Russian government during the latter part of 2008 commenced a series of fiscal stimulus activities, the most important measure being the reduction of the profit tax rate of four percentage points to 20 per cent which became effective 1 January 2009.

Russia forecast overview (values in % unless indicated otherwise)

	2006	2007	2008	2009e	2010e
Real GDP growth	7.7	8.1	5.6	-3.0	2.0
Unemployment	7.2	6.1	6.4	8.4	8.3
Inflation	9.0	11.9	13.3	13.6	9.3
Budget balance (% of GDP)	7.4	5.4	3.6	-8.0	-3.0
Current-account balance (USD billion)	94.3	76.2	98.9	-26.4	-8.2
Current-account balance (% of GDP)	9.5	5.9	5.9	-2.2	-0.6
Exchange rate RUB:USD (31 December)	26.3	24.5	29.4	36.0	36.7

Source: Economist Intelligence Unit

POLITICS

In the presidential election in May 2008 Dmitry Medvedev received 70 per cent of the votes and was elected President. He has to date ruled in tandem with the former President and current Prime minister, Vladimir Putin. While many observers

believe that real power still lies with Putin, some have interpreted Medvedev's criticisms of the Government's response to the financial crisis as signs of Medvedev starting to pursue a more independent agenda.

Ukraine economy and politics

ECONOMY

The global economic crisis has hit Ukraine hard, ending an eight-year growth surge. The credit crisis, the heavy role of international debt in financing recent growth, and a collapse in the demand for steel, Ukraine's biggest industry, has led to a steep recession. Following economic growth of 2.1 per cent in 2008, the GDP is forecast to contract by 10 per cent in 2009 and to slowly recover in 2010. The main risks for the recovery are the uncertain outlook for the country's currency, the Hryvnia, and the banking sector.

In November 2008 the IMF approved a USD 16.4 billion programme to help Ukraine to cope with its financial and economic crisis. The IMF paid out the first tranche of financial support of USD 4.5 billion in November, but delayed the second tranche, owing to concerns over fiscal policy. The IMF said that it is prepared to accept a larger budget deficit if the authorities manage to finance it in a non-inflationary way. The IMF has set fairly tough conditions, including a balanced budget, abandoning the currency peg for a floating exchange rate and a restructuring of the banking sector.

Ukraine forecast overview (values in % unless indicated otherwise)

	2006	2007	2008	2009e	2010e
Real GDP growth	7.4	7.7	2.1	-10.0	1.0
Unemployment	2.7	2.3	3.0	5.0	5.3
Inflation	11.6	16.6	22.3	14.5	11.4
Budget balance (% of GDP)	-0.7	-1.1	-1.5	-3.0	-2.5
Current-account balance (USD billion)	-1.6	-5.9	-11.9	-2.1	-1.1
Current-account balance (% of GDP)	-1.5	-4.2	-6.4	-1.8	-0.9
Exchange rate HRN:USD (31 December)	5.1	5.1	7.7	9.1	8.3

Source: Economist Intelligence Unit

The Hryvnia has depreciated by approximately 40 per cent during 2008. The current account deficit is narrowing sharply owing to falling domestic demand, and the National Bank of Ukraine has continued with intervention and controls, but the Hryvnia remains under downward pressure. The effectiveness of monetary policy has been constrained in recent years by the maintenance of a de facto exchange rate peg against the USD. The flexible exchange-rate regime that the authorities are now implementing will help to develop a more effective monetary policy.

Average annual inflation reached an eight-year high of 25 per cent in 2008 due to the impact of an overheating economy and rising food and commodity prices. The rate eased to 22 per cent by the end of the year and should slow down during 2009.

POLITICS

The domestic political scene has been turbulent for the past several years and is not likely to ease until the end of 2009. The main focus is on the upcoming presidential election, which may take place as early as in October 2009. Considerable uncertainty will attend the outcome of the presidential election in view of the severe economic situation.

Agriculture in Russia

INTRODUCTION

The market for grains in the end of the agricultural year 2007/08 which ended on 30 June was demand-driven. As a result the Russian government increased export duties for certain types and qualities of grains in the beginning of 2008.

The export duties, which were lifted on 1 July 2008, amounted to 40 per cent (but not lower than EUR 105 per tonne) for wheat and rye, and 30 per cent (but not lower than EUR 70 per tonne) for barley. The harvest 2008 was a record with more than 108 million tonnes of grains compared to 82 million tonnes the previous year. Analysts estimate Russia has a surplus of about 30 million tonnes of grains, and the government has launched a number of measures to support the agricultural sector.

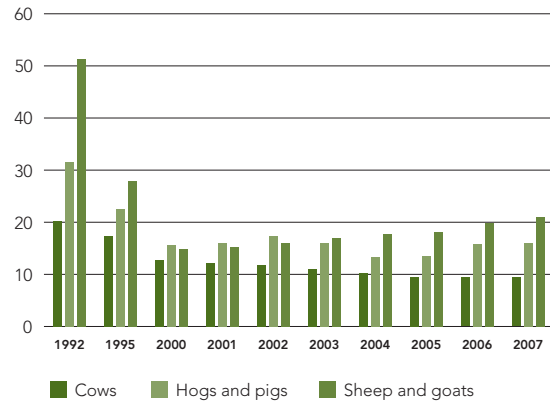
The most important measure is the State intervention programme, through which the Russian state is acquiring grains on the free market to support grain prices. The grain intervention programme was launched on 19 August 2008. The government has allocated RUR 81 billion in total to the state grain purchases, of which RUR 40.7 billion had been spent on buying 8.65 million tonnes until 2 April 2009. 939 agricultural producers are accredited for exchange trading on National Commodities Exchange, where the trading within the framework of the intervention programme takes place.

Yelena Skrynnik was appointed new Minister of Agriculture in March 2009, and she has stated that she expects grain exports during the agricultural year 2008/2009 to amount to 18–19 million tonnes. The former minister of Agriculture, Alexey Gordeev, has become the new governor in the Voronezh region.

RUSSIAN LIVESTOCK FARMING

Livestock farming collapsed in the 1990s, making Russia a major net importer of pork, beef and chicken. The Russian Government has made recovery in livestock farming a national priority, which is reflected in the national farming programme. The national programme gives private initiatives in livestock farming – particularly milk production – interest subsidies, tax breaks and other benefits for a period of up to eight years.

Livestock farming, millions of animals



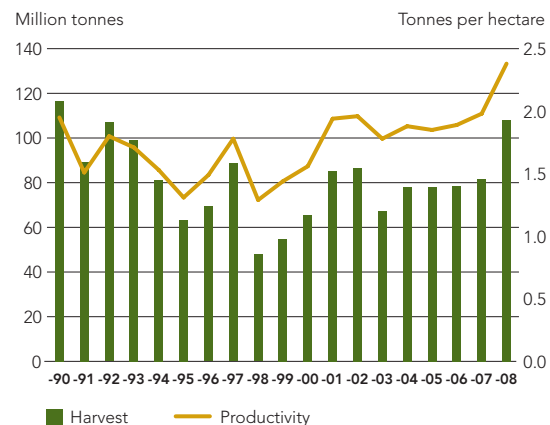
Source: Rosstat

RUSSIAN GRAIN PRODUCTION

Russian grain yields per hectare are significantly below yield levels in other important grain-producing nations, but a considerable yield improvement has been registered since 1998. The trend continued in 2008, where the average yields for grains increased by 20.2 per cent compared to 2007. For some crops like barley and maize, the yields increased by more than 30 per cent. This positive effect is mainly due to favourable weather during 2008, as well as to the introduction of modern machinery and equipment.

Previously abandoned land was also put into production in 2007/08 as a result of high prices for agricultural products. Land under grains increased by 5.5 per cent in 2008 to 46.7 million hectares.

Historical harvests and productivity (Grain)



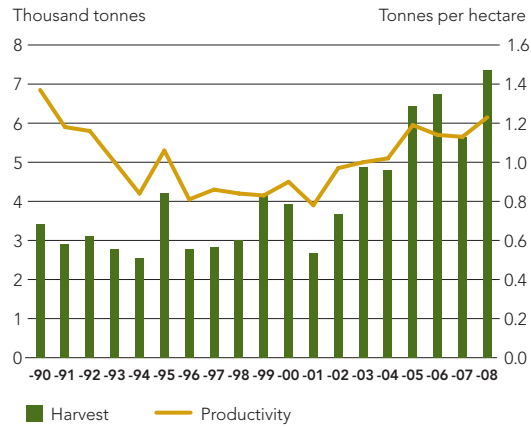
Source: Sovekon

RUSSIAN OIL SEED PRODUCTION

Russian oil seed production is dominated by sunflower. Sunflower production increased by 1.7 million tonnes to 7.3 million tonnes in 2008, mainly due to an increase of land under sunflower by 16.3 per cent to 6.2 million hectares. Yield per hectare also increased from 1.13 to 1.23 tonnes.

The positive production trend since 2001 has resumed after a drop in production in 2007. The drop in oil seed production in 2007 resulted in high price levels for sunflowers of around RUR 22,000 per tonne in spring 2008. Following the strong harvest in 2008, prices dropped to close to RUR 5,000 in the end of 2008, but have recovered to more than RUR 10,000 in 2009.

Historical harvests and productivity (Sunflower)



Source: Sovekon

THE DOMESTIC GRAIN MARKET

The domestic prices for agricultural products in Russia are to a certain extent linked to global market prices, but the lack of infrastructure for the export of soft commodities from Russia weakens the link between domestic prices in Russia and international prices, since there is a limited capacity to export.

In general the grain prices in Russia follow a seasonal pattern, with lower prices during the harvesting season and higher prices during the winter months. The primary reason for the seasonal pattern is that the storage infrastructure in Russia is underdeveloped as compared to international markets, leading to local surpluses during harvesting season.

Historical wheat prices



Source: Reuters

Operations in Russia



INVESTMENT ACTIVITIES

Land acquisition strategy

Alpcot Agro's expansion is being managed by the Investment Manager, Alpcot Capital Management Ltd. The Investment Manager oversees the registration of leases and is in parallel working on acquiring the land that Alpcot Agro is farming. Investment opportunities are evaluated based on a number of established criteria with a view to create an efficient and effective agricultural company.

- *The quality of the soil and precipitation.* Alpcot Agro is mainly expanding in the fertile black earth belt. The Company regularly takes soil samples. Precipitation is carefully monitored before each investment decision.

- *The size of the focus area.* Alpcot Agro aims to control an area of at least 10,000 hectares in the regions where the Company has decided to establish its presence. One of the Company's biggest challenges is identifying, recruiting and retaining key personnel. By creating large focus areas the Company can efficiently use the operational management.
- *Proximity to population centres.* In addition to key personnel, Alpcot Agro needs to recruit staff for its basic operations, which is easier close to large villages or small towns.
- *Proximity and access to infrastructure.* It is both time-consuming and costly to construct road networks or storage capacity. Alpcot Agro therefore prioritises investing in land close to existing infrastructure.

- *Geographical extension.* Alpcot Agro aims to a certain extent to extend its acreage in a north-south direction to prolong both the seeding and harvesting season and thereby also enabling higher capacity utilisation of the Company's machinery.
- *Geographical diversification.* The Company's ambition is to spread its focus areas to reduce exposure to local weather conditions. Geographical diversification can to some extent be achieved by geographical extension.
- *Relations with local authorities.* Political contacts are very important if the Company is to be able to operate and develop its business locally in Russia. The Company prioritises investments in regions where the Company has good relations with the local authorities. In order to be perceived as a responsible investor, Alpcot Agro takes social responsibility in its core regions.

Alpcot Agro gains control of agricultural land by leasing land from the federal and local authorities and Pai owners. The Company only leases land if there is good potential for buying the majority of the leased farmland. Most of the farmland acquired by Alpcot Agro has been purchased within the framework of the Russian Pai system, i.e. the Company purchases land certificates that give entitlement to indirect ownership of a piece of land.

"Land in Ownership" refers to land that has been registered in the name of a subsidiary or indirectly owned land within the framework of the Pai system. The land certificates may be registered either in the name of a subsidiary or in an agent's name within the framework of a legally binding agreement between the agent and the Company's subsidiary. At present only a limited share of the "Land in Ownership" is land which has been registered in the name of a subsidiary, 12,100 hectares as of the end of February 2009.

"Land under Control" means land that has been registered in the name of a subsidiary or land where the Company's subsidiary, either itself or through one of the Company's agents, has registered a lease or is in the process of registering a lease agreement

with the local authorities. The Company is making efforts to convert indirect ownership of land through land certificates into registered proprietary rights.

At the end of February 2009 Alpcot Agro controlled about 135,000 hectares of agricultural land in a total of six different regions in Russia. The Company primarily controls land in the central federal district in the regions of Kursk, Lipetsk, Tambov and Voronezh. The Company also has a presence in the southern federal district in Volgograd. Finally, the Company has acquired land in the Siberian black earth belt in Kurgan. At the same point in time, the Company had about 84,000 hectares of agricultural land as Land in Ownership. There are no reliable price statistics for agricultural land in Russia, but prices rose sharply until the summer 2008, following which they fell distinctly.

Hectares	Land in control	Land in ownership	Registered land
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
Total	135,000	84,000	12,100

Source: Alpcot Agro

In 2007 Alpcot Agro set an objective to control about 200,000 hectares of agricultural land in Russia by the end of 2008. As described above, the focus shifted during 2008 from expansion to consolidation, following the strategic review. The main implications of the strategic review is that the long-term land bank target in Russia is reduced to 120,000–150,000 hectares.

Furthermore, the Company is restructuring its land bank to optimise the geographical structure given the reduced size of the land bank. The restructuring involves acquisition, divestment and swaps of land in Russia. 94,000 hectares out of the 135,000 hectares the Company has under control is regarded as core land, which will not be affected by the restructuring.

The rest is subject to sale or swap arrangements. The Company will also make minor acquisitions of farms in close proximity of its existing core land. Alpcot Agro expects to achieve enough economies of scale despite the reduced target for the land bank.

Hectares	Current land in control	Of which non-core land	Of which core land
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
Russia total	135,000	41,000	94,000

Source: Alpcot Agro

Investments in machinery and equipment

Alpcot Agro is using mainly Western farming equipment with only a limited amount of local equipment

where this is economically justified. The applied principle in the acquisition of new equipment is to use a limited number of models, manufacturers and suppliers. Concentrating purchasing results in lower item prices for equipment and makes it easier to train tractor and combine drivers. It also facilitates repairs and the management of spare parts. All new tractors and trucks have been equipped with separate GPS and SIM systems. The system can locate each vehicle and driver and measure the vehicle's diesel consumption and the number of hours the vehicle is in motion. Equipment activity is tracked at a central location, which reduces the need for physical monitoring in the field.

In 2008 Alpcot Agro made considerable investments in new equipment and facilities equivalent to about SEK 327 million. The Company is thus well equipped to handle both the spring planting campaign and harvesting in 2009. The Company still requires some additional investments to increase its harvesting and transportation capacity.



A combine in action

Investments in storage

Access to storage capacity is an important aspect of Alpcot Agro's value chain. It is also important for the Company to be able to dry, store, clean and treat its own seeds in preparation for the next seeding period. Alpcot Agro uses four types of facilities for storage:

- Flatbed storage is the simplest form of storage and is often used as temporary storage during the harvesting period. The Company has currently about 110,000 tonnes of flatbed capacity.
- Airtight tent storage will be used for medium to long-term storage. The Company has currently about 35,000 tonnes of airtight tent capacity.
- Russian silos with drying capacity and railway connections are used for both transporting grain and input goods.
- New silos built according to Western standards with drying capacity are used for the most valuable harvest and the Company's own seeds. The Company is at present building a silo with a capacity of 10,000 tonnes.

Alpcot Agro is today focusing on renting additional storage capacity in order to reduce the investment requirements in storage capacity.

Financing of investments

Alpcot Agro's investments have mainly been financed by equity. The Company is working actively to increase debt financing, both locally in Russia and outside Russia. Capital intensive investment in machinery, equipment and storage capacity might to some extent be financed through loans or leases in the future. In general the interest rate

on loans to agricultural companies in Russia are subsidised by the state. The Company's short history has so far hampered the ability to raise loans to any significant extent.

OPERATIONAL ACTIVITIES

Harvesting

The Company produced about 150,000 tonnes (before cleaning and drying) of crops in 2008 on 55,600 hectares. Yields for different crops exceeded the Company's estimates, but still leave room for major improvement in the future. About one third of the harvested acreage in 2008 was planted by previous owners before the Company acquired the farms. All the planted area which will be harvested in 2009 has been planted by the Company's own seeders in line with good agricultural practices. This effect should increase the yields 2009 for all relevant crops. Alpcot Agro is planning to harvest at least 65,000 hectares in Russia in 2009. The rest of the Company's land under control which will not be harvested in 2009 is being prepared for the winter planting in 2009.

Crop	Harvested hectares	Average yield (tonnes/ha)	Gross harvest (tonnes)
Winter wheat	20,200	3.5	70,500
Barley	12,300	3.0	36,400
Rye	3,600	2.2	8,000
Spring wheat	5,400	2.4	13,200
Sunflower	9,800	1.4	13,600
Maize	1,200	3.7	4,600
Other	3,100	n.m.	3,800
Total	55,600		150,100

Source: Alpcot Agro



Winter wheat



Harvesting in Ertil in July

Planting

Alpcot Agro winter planted more than 50,000 hectares in Russia in 2008. About 90 per cent of the winter crops are winter wheat, and the remainder is mainly winter rye. All the winter planting has been carried out well in advance of the winter and the winter crops are in an excellent condition. At the time of writing, the Company has treated most of its land under winter crops with additional fertiliser.

Alpcot Agro is currently spring planting at least 15,000 hectares of commercial crops, which excludes the fodder which is cultivated for the Company's dairy farms. About two thirds of the spring planting will be sunflower according to preliminary plans. The selection of crops has been driven by the preparations for the spring planting done last fall, crop rotation, soil condition and profitability expectations. Spring planting has been concentrated on the Company's core land, see description under *Land acquisition strategy*.

Dairy farms

In order to satisfy requirements from local authorities and to benefit from synergies with the crop production, Alpcot Agro (including affiliated companies) currently operates a number of big dairy farms with a total of about 2,400 milking cows. The Company has renovated premises, purchased new modern milking equipment and has seeded corn and fodder grasses to improve the livestock feed. These measures aim to improve the quality of the milk and increase the average production per milking cow. Alpcot Agro has in the beginning of 2009 attracted senior management to manage the dairy farms, and the Company expects to record operational improvements during the year.

Winter planted crop	Voronezh	Volgograd	Tambov	Kursk	Kurgan	Lipetsk	Total
Winter wheat	17,400	6,200	5,800	9,700		6,500	45,600
Winter rye	3,300			1,500			4,800
Winter rape	400						400
Total	21,100	6,200	5,800	11,200		6,500	50,800

Source: Alpcot Agro



Milkfarm in Jechichka



Weighing of the harvest

Operations in Ukraine



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INVESTMENT ACTIVITIES

Land lease strategy

Ukraine has some of the best farmland and grain growing conditions in the world, but the ownership of the farmland is fragmented. The Company launched its operations in Ukraine in early summer 2008 and is active in Western and Central Ukraine. The Company started signing lease agreements for good quality agricultural land where the climate conditions are excellent for grain growing and where the prospects for expansion are advantageous. The Company has focused on signing lease agreements for cultivated land and avoids abandoned land.

As there presently is a moratorium on the sale and purchase of land in Ukraine, the only way to gain control over agricultural land is currently to lease it from local land owners or from the Ukrainian authorities. One of the demands by the IMF toward the Ukrainian government is to allow a market for farmland.

The Company signs lease agreements for a term of five to ten years. According to the current legislation, the lessee has the right of first refusal to both prolong the lease upon its expiration and to buy the land once the moratorium is lifted. At the moment the owners of the majority of land plots are rural residents, who received the land in the privatisation process during the 1990s.

The Company is paying land lease in the range of USD 30–40 per hectare, which in many cases can be paid in grains. The rent rate is in most cases fixed at 3 per cent of the land's cadastre value, which is the minimum rent rate for agricultural land determined by the Ukrainian government.

Following the change in strategy in August 2008, the Company put its expansion plans on hold. Consequently, the size of the Company's presence in each Oblast is smaller than originally planned. However, today's economic environment offers compelling investment opportunities, which the Company plans to exploit by separately attracting capital to the Ukrainian operations.

Investments in machinery and equipment

In August, the first newly purchased western tractors, cultivators and seeding equipment were delivered.

In the future, Alpcot Agro plans to use mainly western farming equipment with only a limited amount of local equipment where this is economically justified. The exception is small tractors, some spraying and spreading equipment and support vehicles for road transports, such as lorries and tank trucks. These types of equipment and machinery are often fully functional and will be used throughout their life span.



The directors inspecting the harvest

OPERATIONAL ACTIVITIES

Planting

The Company focuses on the best farming regions and strives to capture a high yield in the near future. Through contemporary farming techniques, appropriate inputs and modern equipment there is a great potential to increase crop yields.

The Company planted 4,600 hectares of winter wheat in the fall of 2008. The Company expects yields for winter wheat to be 4–5 tonnes per hectare in 2009. At the time of writing, the Company has treated most of its land under winter crops with additional fertiliser. In general, the winter in Ukraine has been favourable to winter wheat and the crops are in excellent condition.

The Company is planning to spring plant spring wheat, buckwheat, mustard and soy of about 1,500 hectares and is planning to harvest around 6,100 hectares during 2009. The selection of crops has been driven by the conditions of the land, crop rotation, soil condition and profitability expectations.

Region	
Poltava	2,000
Volyn	1,600
Lviv	400
Ivano-Frankivsk	600
Ukraine total	4,600

Source: Alpcot Agro

Local organisation

Agrokultura Management LLC and six fully-owned Agrokultura subsidiaries were incorporated during 2008. The Company has a strong operational and financial management team and runs its operations from small and efficient offices in Ivano-Frankivsk, Kiev and Lviv. The management team has a strong setup of skills and experience and is well suited to managing large scale agricultural operations. During the year, the Company has also trained its tractor drivers and engineers, in order to improve operational efficiency.



Loading seeds

Organization

BOARD OF DIRECTORS

The Board of Directors consists of four members. The Board has overall responsibility for the Company's operations. The Board members also ensure that the Company's investment strategy is implemented and conducted in an appropriate manner. The Board thus also functions as an investment committee in addition to carrying out regular Board duties.

MANAGEMENT TEAM AND THE INVESTMENT MANAGER (ALPCOT CAPITAL MANAGEMENT LTD)

Alpcot Agro's management and the Investment Manager work closely together. Representatives from the Investment Manager hold positions as CEO and CFO in Alpcot Agro AB. The Company's management and centralised functions will be based in the head office in Moscow.

The Investment Manager is solely responsible for identifying favourable investments and divestment opportunities. The Investment Manager is responsible for implementing Alpcot Agro's restructuring plan with respect to the acquisition and sale of agricultural land and farms.

THE MANAGEMENT COMPANY IN RUSSIA

For the purpose of concentrating the management resources in Russia, the Board decided at the end of 2007 to create a management company, LLC Management Company Agrokultura creating a centralised management organisation to handle the following areas of the Russian operations:

- Farming policy
- Policy for machinery and equipment
- Accounting policy
- Suppliers and sales/customers
- Liquidity control
- Operational and financial reporting
- Human resources

The concentration of certain functions to the management company makes it possible to form one management and administrative organisation with standardised routines as well as simplified and more transparent decision processes. This also makes the reporting routines within the Company more clear.



Harvesting in Voronezh

Employees

During 2008, the Company has continued its rapid expansion through acquisition of existing farms and setting up operations in the new subsidiaries. At the end of 2008 the Company had about 1,285 employees, of which 926 are men and 359 women. In the last quarter of 2008, the Company started a cost reduction program, including labour force optimization. As a result the workforce has been reduced to about 1,035 employees as of 31 March 2009. The total amount of employees in farms engaged in crop production amounts to 785 which is equivalent to about one employee for 150 hectares of farmed land. The review of the labour force is still ongoing and will be finalised by the end of first half of 2009.

At the same time, the Company continues to strengthen the management functions and recruit talented local managers. The Company believes that locally recruited managers who understand the local business climate are required to effectively run

operations in Russia and the other CIS states. The Company's strategy includes supporting the local managers with Western leadership skills and expertise to ensure that the Company's strategies and objectives are fulfilled.

The Company also expanded the training activities during the year:

- for tractor drivers, both internal and external training session took place with the support of machinery suppliers
- for local agronomists, both internal and external training were held with the support of plant protection suppliers

The Company has also developed a balanced motivation system to create proper incentives for tractor and truck drivers – the most important labour force in the fields.



Training for tractor drivers

Environment and social responsibility

ENVIRONMENT

Alpcot Agro has from the start been applying plough free technology with the ambition of achieving both higher profitability and lower environmental impact. The natural conditions of the Chernozem soils allow the use of shallow cultivation and direct seeding systems. Both of these techniques are well known to have carbon dioxide sink effects that conserve carbon in the soils as well as conserving soil fertility. By using highly efficient machinery from western manufacturers we avoid burning the stubble after harvesting, which is a common practice in Russia and produces thousands of tonnes of carbon dioxide every year.

The operational perspective is long term, aiming to avoid environmental damages instead of repairing them later on. This concerns soils (compactions, erosion, and degradation) air (minimizing carbon dioxide-production), water (avoiding inefficient usage, distribution of chemicals) as well as using a minimum of fossil fuel. The Company has the absolute ambition to be acting in a responsible and environmentally sound manner, and the objective is to maintain and to develop the environmental policies.

PRECISION FARMING

In 2009 Alpcot Agro aims for higher yield and better quality without increasing the amount of fertilizers. Sensors and precision farming methods give the option to apply fertilizer according to the specific needs of the plants. During the winter, a number of soil samples have been analyzed which gives a basic plan for the required amount of fertilizer.

Experienced specialists regularly perform field-research which leads to continuous fine-tuning of the plans for fertilization and plant protection. The carrying out of the precision fertilization is then done by GPS directed tractors with automated steering units.

To practice a long term sustainable and environmentally safe cropping system is the main objective of the Company, realizing that this is giving sustainable economic benefits as well.

SOCIAL RESPONSIBILITY

Alpcot Agro continues to prove its social responsibility policy in the regions where it operates. This includes conforming to international labour conventions, being an equal opportunity employer and ensuring that health and safety procedures are observed in the different workplaces. Investments in social programs allow the Company to improve its relations in rural areas and maintain a good working relationship with local authorities, administration, police and fire departments.

During 2008 the Company has extended the reach of its contribution to social projects by:

- Sponsoring the organization of the VII Festival of Folklore and Craft in Vorobiovka
- Sponsoring local football teams in Ertil and Buturlinov
- Sponsoring a local school in Ertil
- Giving support to civilian victims of the Georgian-Ossetian conflict



A new John Deere tractor



New Claas machines

Share capital, ownership structure and share performance

SHARE STRUCTURE

As of 31 December 2008, the Company's share capital amounted to SEK 146,903,500 shared between 29,380,700 shares. The quota value of the shares is SEK 5.00. All of the shares carry the same voting

rights and each shareholder is entitled to vote for the full number of shares owned and represented at the general meetings. All shares also carry equal rights to a share of the Company's assets if liquidated and in dividends.

Changes in share capital

Transaction	Year	Change in no. of shares	No. of shares	Subscription price in SEK	Change in share capital in SEK	Share capital in SEK
Formation	2006	–	100,000	–	–	100,000
Reverse split 1:5	2006	–80,000	20,000	–	–	100,000
New Issue	2006	80,000	100,000	–	400,000	500,000
Share issue 1	2007	9,053,200	9,153,200	25	45,266,000	45,766,000
Share issue 2	2007	6,000,000	15,153,200	45	30,000,000	75,766,000
Share issue 3	2007	87,500	15,240,700	45	437,500	76,203,500
Share issue 4	2007	6,000,000	21,240,700	60	30,000,000	106,203,500
Share issue 5	2008	140,000	21,380,700	25	700,000	106,903,900
Share issue 6	2008	8,000,000	29,380,700	65	40,000,000	146,903,500

OWNERSHIP STRUCTURE

Main shareholders of Alpcot Agro per March 31, 2009

Shareholder	Number of shares	Capital and votes %
1. Tredje AP-fonden	4,758,000	16.2
2. SIX SIS AG	2,984,500	10.2
3. Nordea Fonder incl. Luxembourg	1,842,230	6.3
4. Credit Suisse Sec. Europe Ltd	1,819,600	6.2
5. Sofa	1,300,000	4.4
6. Corso Holding S.A.	953,200	3.2
7. SEB Private Bank	916,000	3.1
8. Andra AP-fonden	900,000	3.1
9. Swedbank Robur fonder	657,000	2.2
10. JP Morgan Bank	609,670	2.1
Others	12,640,500	43.0
Total no. of shares	29,380,700	100

As far as the Company is aware, there are no shareholder agreements or other agreements between shareholders for the purpose of having joint control, or any agreements or the equivalent that could lead to a shift in control of the Company.

SHARE PERFORMANCE

OTC trading ("grey trading") with Alpcot Agro's shares was started through Carnegie Investment Bank AB in November 2007. OTC trading means that Carnegie sets the buying and selling rate for the share, but this may not and should not be compared to a listing on an established marketplace. In addition, trading may take place via other financial institutions of which the Company is not aware.

In 2008 a total of around 17.1 million shares were traded for a value of about SEK 814.1 million. The final closing price for 30 December 2008 was SEK 12. From 1 January 2009 to 31 March 2009 an additional approx. 340,000 shares were trading for a value of about SEK 5.5 million.

Board of Directors report

OPERATIONS

Alpcot Agro AB (publ), (the "Group" or "Alpcot Agro"), corporate registration number 556710-3915, has during 2008 continued to acquire and cultivate agricultural land in Russia. In 2008 Alpcot Agro also established its presence in Ukraine by acquisition of agricultural land. By using Western methods and the latest technology, the objective is to generate an attractive return on invested capital.

During the year the Group took control of and acquired, directly or indirectly, agricultural land in six regions in Russia, Voronezh, Volgograd, Tambov, Lipetsk, Kursk and Kurgan. At the end of the year the Group controlled 135,000 hectares in Russia of which 84,000 hectares were under proprietary rights. In Ukraine the Group has taken control of and acquired, directly or indirectly, agricultural land in five regions, Lviv, Volin, Ivano-Frankivsk, Poltava and Ternopil. At the end of the year the Group controlled 4,550 hectares in Ukraine.

The Group harvested 55,600 hectares which yielded a harvest of 150,000 tonnes of grain which in turn generated a revenue of approximately SEK 30 million. The harvested volume consisted of 83,700 tonnes of wheat, 36,400 tonnes of barley, 8,000 tonnes of rye, 13,600 tonnes of sun flowers and 8,400 tonnes of other.

For Russia the winter seeding amounted to 50,800 hectares, of which 45,600 was winter wheat, 4,800 was winter rye and 400 was winter rape. For Ukraine the winter seeding amounted to 4,550 hectares of which all was winter wheat.

The Group has had a big focus on theoretical education and practical training of employees in basic understanding in new farming techniques and in operation of machinery and equipment.

IMPORTANT EVENTS DURING THE FINANCIAL YEAR

Alpcot Agro raised new capital twice during 2008 totalling SEK 523.5 million, exclusive of transaction costs. The first round, totalling SEK 520 million, was purely to raise new capital while the second round, totalling SEK 3.5 million, was related to a fulfilment of an obligation in an acquisition.

In September 2008 Carl Aschan resigned as the CEO of the Group and Björn Lindström was appointed as new CEO.

In October 2008 the Board of Directors decided to relocate the head office from Stockholm to Moscow and to implement a strategic overview in order to adjust the Group's organisation and operations to the prevailing conditions on the capital markets. The Board also decided to postpone the planned listing of the Group's shares on NASDAQ OMX First North.

FINANCIAL POSITION

As of December 31, 2008 the Group had cash and cash equivalents amounting to 105,620 KSEK (186,593). The equity/assets ratio was 91,0 per cent (94,5).

The Group's equity amounted to 1,207,239 KSEK (810,216), which is equivalent to 41.09 SEK (38.14) per share.

EARNINGS

The Group's pre-tax earnings January–December 2008 were negative at –105,968 KSEK (–21,960).

INVESTMENTS

During the year investments in new machinery and equipment amounted to approximately 299 MSEK, in buildings to approximately 13 MSEK and in assets under constructions to approximately 24 MSEK.

EMPLOYEES

The average number of full-time employees during 2008 were 1,015 (80).

RISK

The Group's operations, in addition to business risk, are exposed to credit, currency, liquidity and interest risk. The Group has implemented risk management structures and set out a number of risk management and control procedures to handle these exposures and risks.

For more detailed information about risks mentioned above, please refer to Note 26 – Risk management.

WORK OF THE BOARD OF DIRECTORS

The Board consist of four members elected by the Annual General Meeting, including the Chairman. During the financial year the Board convened ten board meetings. In addition the Board has on an ongoing basis discussed the operations and development of the Group. During 2008 Carl Aschan and Torbjörn Ranta resigned from the Board.

IMPORTANT EVENTS SUBSEQUENT TO THE END OF THE FINANCIAL YEAR

In order to strengthen the Group's liquidity the Group has completed an issue of a convertible loan in March 2009. The issue raised a total of approximately SEK 65 million, exclusive of transaction costs. The loan matures in the end of March 2011 and has a fixed interest rate of 10 per cent, see Note 27.

PARENT COMPANY**Operations**

Alpcot Agro AB (Publ) is a Holding company that manages and develops investments within the agricultural sector in Russia and Ukraine.

Financial position

As of December 31, 2008 the parent company had cash and cash equivalents amounting to 85 MSEK (145). The equity ratio was 99.8 per cent (97.9). The parent company's equity amounted to 1,356 MSEK (836).

Earnings

The Parent company's pre-tax earnings January–December 2008 were 18,2 MSEK (0,6).

Important events during the financial year

See the relevant section for the Group.

Employees

The average number of employees during the period were 3 (1) persons.

ANNUAL GENERAL MEETING

The Board of Directors has convened an Annual General Meeting on May 13, 2009 at 4.30 p.m.

Last day for re-registering shares held through nominees is May 7, 2009.

Alpcot Agro's articles of association contain a record clause and the share register is kept by the Swedish securities and registration centre, Euroclear Sweden AB (Euroclear Sweden AB), Box 7822, 103 97 Stockholm). Share certificates are not issued.

DIVIDEND POLICY

Alpcot Agro may distribute future profits to the shareholders. However, as long as the Board of Directors sees an opportunity to reinvest profits on favourable terms, the Board does not intend to propose any dividend. As an alternative to dividends, The Board may propose a transfer of value through a reduction of the share capital or restricted equity for repayment to shareholders, or, provided that Alpcot Agro's shares are available for trading on a regular market, by buying treasury shares.

FINANCIAL SUMMARY

The Group	2008	2007
Earnings per share, SEK	-3.77	-2.11
Equity per share, SEK	41.09	38.14
Equity/Asset ratio, %	91.0	94.5
Quick asset ratio, %	392	1,750
Number of employees at the end of the year	1,285	298

Parent company	2008	2007
Equity / Asset ratio, %	99.8	97.9

PROPOSED DISTRIBUTION OF THE PARENT COMPANY'S RESULT

Share premium reserve	1,181,372,799
Retained earnings	10,533,491
Profit for the year	18,187,926
	1,210,094,216

The Board of Directors propose that the share premium reserve, retained earnings and the profit for the year 18,187,926 SEK, amounting to 1,210,094,216 SEK be carried forward.

Consolidated income statement

KSEK	Note	1 Jan. 2008 – 31 Dec. 2008	7 Sep. 2006 – 31 Dec. 2007
Revenue	6	30,267	15,374
Gains (losses) arising from changes in fair value of biological assets		37,457	-138
Government grants	6	10,309	-
Cost of sales	7	-55,334	-17,250
Costs for breaking new areas and fallow land cultivation costs		-23,564	-2,420
Gross profit		-865	-4,434
Other external costs	23	-65,232	-14,256
Personnel costs	19	-23,799	-4,985
Depreciation and amortisation of tangible/intangible assets	9, 10	-21,439	-3,408
Operating result		-111,335	-27,083
Income/(loss) from investments, net	22	-13,737	295
Interest income and similar items		23,366	4,907
Interest expense and similar items		-4,262	-79
Result before tax		-105,968	-21,960
Tax	8	9,876	3,184
Net income		-96,092	-18,776
<i>Net profit attributable to:</i>			
Shareholders of the parent company		-96,004	-18,776
Minority		-88	-
Earnings per share		-3,77	-2,11
Average number of shares		25,458,892	8,917,723

Consolidated balance sheet

KSEK	Note	31 Dec. 2008	31 Dec. 2007
ASSETS			
Non-current assets			
Tangible fixed assets	9	426,624	65,828
Intangible fixed assets	10	39,295	34,353
Biological assets	13	14,514	944
Equity investments	18	891	–
Securities and other financial assets	11	299,604	117,871
Deferred tax assets	8	20,829	4,522
Total non-current assets		801,757	223,518
Current assets			
Inventory	12	161,320	10,296
Biological assets	13	83,622	14,738
Trade and other receivable		9,230	7,836
Taxes receivable		264	20
Other receivables	15	174,770	414,768
Cash and cash equivalents	14	105,620	186,593
Total current assets		534,826	634,251
TOTAL ASSETS		1,336,583	857,769

Consolidated balance sheet continued

KSEK	Note	31 Dec. 2008	31 Dec. 2007
EQUITY AND LIABILITIES			
Equity	20		
Share capital		146,904	76,204
Other paid in capital		1,183,373	753,809
Reserves		-8,471	-1,021
Retained earnings, incl result for the year		-114,868	-18,776
		1,206,938	810,216
Minority interest		301	-
Total equity		1,207,239	810,216
Non-current liabilities			
Other non-current liabilities		38,860	2,587
Deferred tax		16,631	10,151
Total non-current liabilities		55,491	12,738
Current liabilities			
Short term loans		18,136	567
Trade payables		42,796	3,855
Taxes payable		117	11
Other liabilities	16	5,917	11,204
Accrued expenses	17	6,887	19,178
Total current liabilities		73,853	34,815
TOTAL EQUITY AND LIABILITIES		1,336,583	857,769
Pledged assets		4,334	560
Contingent liabilities		None	None

Consolidated statement of changes in equity

	Equity attributable to shareholders of the parent company						Minority interest	Total equity
	Share capital	Other capital contributions	Reserves	Retained earnings	Total equity			
Opening balance	100				100		100	
Translation difference			-1,021		-1,021		-1,021	
Change in assets recognised directly in equity	100	-	-1,021		-921		-921	
Net income				-18,776	-18,776		-18,776	
Total changes in assets excluding transactions with the company's shareholders	100	-	-1,021	-18,776	-19,697		-19,697	
New share issues	76,104	391,809			467,913		467,913	
New issue in progress		360,000			360,000		360,000	
Shareholders' contribution		2,000			2,000		2,000	
At 31 December 2007	76,204	753,809	-1,021	-18,776	810,216	-	810,216	
Translation difference			-7,450		-7,450		-7,450	
Change in assets recognised directly in equity	-	-	-8,471	-	-8,471		-8,471	
Minority interest						301	301	
Net income				-96,092	-96,092		-96,092	
Total changes in assets excluding transactions with the company's shareholders	-	-	-8,471	-96,092	-104,563		-104,262	
Registration of new issue in progress	30,000	-30,000			-			
New share issues	40,700	459,564			500,264		500,264	
At 31 December 2008	146,904	1,183,373	-8,471	-114,868	1,206,938	301	1,207,239	

Consolidated cash flow statement

SEK thousands	Note	1 Jan. 2008 – 31 Dec. 2008	7 Sep. 2006 – 31 Dec. 2007
Operating activities			
Cash received from debtors		27,750	12,692
Cash paid to suppliers and personnel		-313,951	-72,867
Cash flow (used in)/generated from operations		-286,201	-60,175
Interest received		11,974	5,133
Interest paid		-147	-
Income tax paid		-252	-28
Net cash (used in)/generated from operating activities		-274,626	-55,070
Investing activities			
Acquisition of subsidiaries, net of cash acquired	5	-27,599	-35,750
Acquisition of tangible fixed assets	9	-575,623	-168,844
Sale of fixed assets and intangible assets		277	390
Change in loan receivables		-72,611	-17,944
Cash flow from investing activities		-675,555	-222,148
Financing activities			
Proceeds from share issue		866,338	500,767
Issue costs		-23,236	-32,755
Other paid in capital		-	2,000
Proceeds from loans, repayment of loans, net		24,577	-7,509
Cash flow from financing activities		867,680	462,503
Net (decrease)/increase in cash and cash equivalents		-82,502	185,285
Cash at the beginning of the year		186,593	-
Exchange differences in cash		1,529	1,308
Cash at the end of the year	14	105,620	186,593

Notes

NOTE 1 – GENERAL INFORMATION

Alpcot Agro AB was formed in 2006 and has since January 2007 been implementing an expansion plan involving the acquisition of farms in six regions in Russia, Voronezh, Volgograd, Tambov, Lipetsk, Kursk and Kurgan. In 2008 Alpcot Agro also established its presence in Ukraine by acquisition of farms in five regions, Lviv, Volyn, Ivano-Frankivsk, Poltava and Ternopil.

The Company is a public limited liability company registered in Stockholm. The address to the head office is Lotte Plaza, 9th floor, 8 Novinsky Boulevard, 121099 Moscow, Russia.

NOTE 2 – ACCOUNTING PRINCIPLES ETC

(a) Principles applied in preparing the financial statements

The consolidated financial statements are prepared on the historical cost basis, except for acquired subsidiaries, which are valued at fair value in accordance with IFRS 3 "Business combinations", biological assets which are recognised at fair value in accordance with IAS 41 "Agriculture", and certain financial instruments which are recognised at fair value in accordance with IAS 39 "Financial instruments, recognition and measurement". All amounts are in thousands of Swedish crowns, KSEK, unless otherwise indicated.

(b) Statement on compliance with the rules in force

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) and the interpretations from the International Financial Reporting Interpretations Committee (IFRIC). Since the parent company is a company within the EU, only the IFRS that have been approved by the EU are applied. The consolidated financial statements have also been prepared in accordance with Swedish law through the application of the Swedish Accounting Standards Council's recommendation RFR 1:1 "Accounting for legal entities", as well as statements from the Council's Emerging Issues Task Force.

Preparing financial statements in accordance with IFRS requires the use of a number of significant estimates for accounting purposes. It also requires management to make certain judgements in application of the Group's accounting principles. Areas where a high degree of estimation, which are complex or where judgements and estimates have a significant impact on the consolidated financial statements are described in Note 3.

(i) Standards, amendments and interpretations that came into effect in 2008

IFRIC 11, "IFRS 2 – Group and Treasury share transactions" discusses share based transactions involving group and treasury shares. IFRIC 11 provides guidance on

whether these transactions should be accounted for as sharebased payments settled by equity instruments or cash in separate financial statements for the parent company and the related group companies. IFRIC 11 had no impact on the consolidated financial statements.

IFRIC 14, "IAS 19 – The limit on a defined benefit asset, minimum funding requirements and their interaction". IFRIC 14 provides guidance on how to assess the limit on the amount of surplus in a defined benefit scheme that can be recognised as an asset under IAS 1 "Employee benefits". It also explains how a defined benefit asset or liability can be affected by an obligation regarding a minimum funding requirement. This IFRIC has no impact on the Group's financial statements, since there are no defined benefit assets in any of the Group's pension plans and these plans have no requirements for a minimum funding.

The following standards and changes of existing standards have been published and come into effect on financial years beginning January 1, 2009 or later and have been adopted early by the Group.

IAS 23 "Borrowing costs – Revised" – The revised IAS requires capitalization of borrowing costs that are directly attributable to the acquisition, construction or production of qualifying assets. The alternative method to expense these borrowing costs has been abolished. The Group adopted IAS 23 (Revised) as of January 1, 2008.

The following standards and interpretations of existing standards have changed and comes into force on January 1, 2009 and have not been adopted early by the Group. Management evaluates the effects of the implementation of these standards and interpretations and estimates that they will not, with the exception of IFRS 8, have a significant impact on the consolidated financial statements.

IFRS 8 – "Operating segments". IFRS 8 replaces IAS 14 – "Segment reporting" and conforms segment reporting to the US standards SFAS 131 – "Disclosures about segments of an enterprise and related information". The new standard requires that segment information is presented based on management's view, which means it should be presented in the same manner as it is presented in the internal reporting to management. The new standard may have a significant impact on the disclosures about segment information when management has evaluated whether more segments will be disclosed in addition to the two segments currently disclosed.

Note 2 continued

IAS 1 "Revised presentation of financial statements" – The Standard separates owner and non-owner changes in equity. The statement of changes in equity will include only details of transactions with owners, with non-owner changes in equity presented as a single line. In addition, the Standard introduces the statement of comprehensive income: it presents all items of recognised income and expense, either in one single statement, or in two linked statements.

IFRIC 12 "Service Concession Arrangements" – The interpretation, which is not yet approved by the EU, explains how to account for the obligations and rights received in service concession arrangements.

IFRIC 13 "Customer Loyalty Programmes" – In June 2007 IFRIC issued IFRIC 13. The interpretation requires customer loyalty credits to be accounted for as a separate component of the sales transaction in which they are granted and that a portion of the fair value of the consideration received is allocated to the credits award and deferred. This is then recognised as revenue over the period that the award credits are redeemed.

(c) Basis of consolidation

The consolidated financial statements have been prepared in accordance with the purchase method and cover the parent company and its subsidiaries. The financial statements for the parent company and the subsidiaries that are included in the consolidated financial statements pertain to the same period and are prepared according to the accounting principles that apply for the Group. All intra-group transactions, balances and any unrealised profits or losses arising from intra-group transactions are eliminated. The consolidated financial statements incorporate financial statements of the parent company and its subsidiaries, from the date that control effectively commenced until the date that control effectively ceased. Control is achieved where the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

The subsidiaries are consolidated according to the purchase method. The purchase method means, among other things, that the cost of an acquisition is allocated to the acquired assets, liabilities and contingent liabilities based on their fair values at the date of acquisition. If the cost of the acquisition exceeds the acquired assets, liabilities and contingent liabilities, the difference is recognised as goodwill. If the cost of the acquisition is less than the net assets of the acquired subsidiary, the difference is recognised directly in the income statement.

Minority interest is the part of a subsidiary's net income and net assets that is not, directly or indirectly, controlled by the parent company. The minority's interest in the net income is included in the consolidated income statement. The minority's interest in the net assets are included in the equity of the consolidated balance sheet but is separated from equity attributable to the parent company shareholders.

Joint Ventures and equity investments

Investments in Joint Ventures (JV) and associates are accounted for using the equity method. Goodwill arising on the acquisition of an associate or joint venture is included within the carrying amount of the associate or joint venture. If it is apparent that goodwill does not reflect future economic benefits, it is immediately written off.

Any net excess of the Group's interest in the net fair value of acquiree's net identifiable assets over cost is recognised in the income statement.

When the Group's share of losses exceeds the carrying amount of the investment, the investment is reported at nil value and recognition is discontinued unless the Group has a commitment towards the JV or associate.

Where a Group enterprise transacts with an associate or JV of the Group, unrealised profits and losses are eliminated to the extent of the Group's interest in the relevant associate or JV, except where unrealised losses provide evidence of an impairment.

(d) Segment reporting

Management has determined the operating segments based on the information which is reviewed by management and which is used to make strategic decisions.

Management reviews the operations from a geographical perspective. Geographically management reviews the results from the agricultural operations in Russia and Ukraine.

The operating segments, for which information is disclosed, receives their revenues from agricultural operations.

The Group's basis for segmentation is also based on the fact that risks and opportunities are affected by the fact that it operates in different countries and geographical areas. The geographical areas that are included in segment reporting coincide with the entities for which information is provided and reported internally to company management and the Board of Directors in their aim to determine the historical development and to make decisions on the future focus and use of resources. The segments results, assets and liabilities include directly attributable items and items that can be divided by segment in a reasonable and reliable way. All intra-group sales are eliminated upon consolidation.

Note 2 continued

(e) Translation of foreign operations

The Group's consolidated financial statements are presented in Swedish crowns, SEK, which is the functional and presentation currency of the Group. Assets and liabilities in foreign operations are translated into SEK at the exchange rate prevailing at the balance sheet date. Income statements in foreign operations are translated using the average exchange rate for the year. Translation differences that arise on the translation of foreign operations are taken directly to equity. There are no forward contracts to hedge flows between countries.

(f) Foreign currency translation

The functional currency for each entity in the Group is determined based on the economic environment in which they operate, which largely corresponds to the local currency in the respective country. Monetary assets and liabilities that are expressed in foreign currencies are translated at the exchange rate prevailing at the balance sheet date. All differences are taken to the income statement with the exception of foreign currency borrowings accounted for as a hedge of a net investment in a foreign operation. These are taken directly to equity until the disposal of a net investment, at which time they are recognised in the income statement.

Exchange rates

The following exchange rates have been used in connection with the preparation of the consolidated financial statements.

	Closing rate	Average rate
100 Russian roubles is equivalent to SEK	26.32	26.42
100 Ukrainian hryvnia is equivalent to SEK	99.16	77.37
1 Euro is equivalent to SEK	10.94	9.61

The local currency of Cyprus is the Euro since January 1, 2008.

(g) Fixed assets

(i) Tangible fixed assets

Tangible fixed assets, except for land, are recognised at cost less accumulated depreciation and any impairment losses. Fixed assets are recognized as such when all related risks & economic benefits are transferred to the Group and when they are ready for their intended use. When an asset is not ready for its intended use but risks & economic benefits are transferred to the Group this item is recognized in fixed assets as a part of construction in progress. The cost of tangible fixed assets includes expenses that can be directly attributed to the acquisition of the asset. Borrowing costs that are directly attributable

to the acquisition, construction or production of a fixed asset are capitalized as part of the cost of that asset.

The carrying amount of tangible fixed assets is removed from the balance sheet upon retirement or sale of the asset, or when no future economic benefits can be expected from the use of the asset. The gain or loss that arises when a tangible asset is removed from the balance sheet is recognised in the income statement.

(ii) Land

Land is initially recognised at cost. After initial recognition, land is recognised at the revalued amount, which is equivalent to fair value at the time of revaluation. The fair value is established according to market-based information through an evaluation carried out by independent evaluators.

Land has an unlimited useful life and is therefore not depreciated. If the cost of land includes the costs of site dismantlement, removal and restoration, that cost portion of the land asset is depreciated over the period which it is considered that the Group will gain benefits by incurring those costs.

An increase in the carrying amount arising from remeasurement of an asset is taken to reserves in equity. A reduction arising from remeasurement of an asset is charged to the reserves in equity. All other reductions are recognised in the income statement.

(iii) Intangible fixed assets, except goodwill

An intangible fixed asset is an identifiable non-monetary asset without a physical form that can generate future economic benefits. An asset meets the criteria of being intangible when it:

- Is detachable, i.e. it is possible to detach or separate the asset from the company and sell, transfer, license, lease or exchange it, either individually or together with a relevant contract, relevant asset or liability, or
- originates from contractual or other legal rights, regardless if these rights are transferable or detachable from the company or from other rights and obligations.

An intangible fixed asset is recognised at cost less any amortisation or write-downs.

Intangible assets that have an indeterminable useful life are not amortised.

The carrying amount of intangible fixed assets is removed from the balance sheet when the asset is retired or sold, or when no future economic benefits can be expected from the use of the asset. The gain or loss that arises when an intangible asset is removed from the balance sheet is recognised in the income statement.

*Note 2 continued**(iv) Goodwill*

Goodwill consists of the excess of the cost over fair value of the Group's interest in acquired subsidiaries' / associated companies' identifiable net assets at the acquisition date. Goodwill arising on acquisition of subsidiaries is recognised as an intangible asset. Goodwill arising on the acquisition of an associated company is included in the carrying value of the holding in the associated company and is tested for impairment as part of the value of the total holding. Goodwill that is recognised separately is tested annually to identify any impairment and recognised at cost less accumulated impairment. Recognised impairment losses on goodwill are not reversed. Gains or loss on the sale of an entity include the remaining carrying amount of the goodwill pertaining to the sold entity.

Goodwill is allocated to cash generating units (CGUs) for impairment testing. Goodwill is allocated to the CGUs or groups of CGUs that are expected to benefit from the business combination that have given rise to the goodwill. The Group allocates goodwill to all segments in all countries where the Group has operations.

(h) Depreciation*(i) Tangible fixed assets*

Tangible fixed assets, with the exception of land and biological assets, are depreciated using a straight-line method to the asset's residual value and over the estimated useful life of the asset. The estimated useful lives of the groups of fixed assets are:

Buildings	20–50 years
Technical equipment	5–20 years
Agricultural machinery	5–20 years
Power stations and generators	10–25 years
Motor vehicles	4–10 years
Furniture and office equipment	5–25 years
Capitalised land improvements	25 years
Other	5 years

Depreciation of an asset starts when it becomes available for use, i.e. when it is ready for its intended use and is in the location and condition necessary to be used in the manner that management has intended. The asset's residual value and useful life is tested at every closing day and adjusted as needed.

(ii) Intangible fixed assets, except goodwill

Amortisation of an intangible fixed asset with a determinable useful life is effected on a straight line basis to the asset's estimated residual value and during the asset's expected useful life. The estimated useful life for the different groups of intangible fixed assets are:

Land usage rights	1–49 years
Software	5 years

The right to use land is normally 49 years. Depending on when the contracts for land usage rights are acquired or taken control of the remaining useful life varies. The average remaining useful life for the Group's land usage rights is 8 years.

(i) Construction in progress

Construction-in-progress comprises costs directly related to construction of tangible fixed assets including an appropriate allocation of directly attributable variable overheads that are incurred in construction. If construction-in-progress is related to qualified assets, cost also includes finance costs capitalised during the exploration, development and construction periods where such costs are financed by borrowings. Depreciation and depletion of these assets commences when commercial production of the related assets have commenced.

(j) Impairment of tangible fixed assets and intangible fixed assets, excluding goodwill.

The Group tests its tangible and intangible fixed assets for possible impairment if, as a result of an event or changed circumstance, there is an indication that the assets' carrying amount cannot be justified by comparing the carrying amount of the asset to their respective recoverable amount. When it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

The recoverable amount is the higher of fair value less cost to sell and value in use. If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised in the income statement immediately.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit) is increased to the revised estimate of its recoverable amount, but only to the extent that the increased carrying amount does not exceed the original carrying amount that would have been determined had no impairment loss been recognised in prior periods. A reversal of an impairment loss is recognised in the income statement immediately.

Note 2 continued

(k) Biological assets

Living animal and plant, controlled by the Group which can generate future economic benefits are recognized as a biological assets in accordance with IAS 41 "Agriculture".

Enisey Group divides biological assets in bearer & consumable and also in mature & immature in accordance with IAS 41. Bearer biological assets are presented by productive cattle, plow cattle, feeder cattle, pigs & young stock. Bearer biological assets are split to mature & immature. Mature bearer biological assets are productive cattle, feeder cattle, plow cattle & breeding bulls. Immature bearer biological assets are presented by young stock. Consumable biological assets presented by grain crops. If such consumable biological assets have reached certain parameters, which allow beginning harvest these assets are considered mature, else these assets certain are classified as immature.

A biological asset should be measured on initial recognition and at each balance sheet date at its fair value less estimated point-of-sale costs, except for the case when the fair value cannot be measured reliably. In such cases biological assets are recognised at cost less depreciation and possible impairment.

Bearer biological assets are recognized separately as fixed assets, when productive cattle generate economic benefits during a period longer than one year.

Consumable biological assets are recognized separately as current assets, when grain crops are transformed into agricultural produce within one year.

Agricultural produce harvested from an enterprise's biological assets should be measured at its fair value less estimated point-of-sale costs at the point of harvest. Grain crops are recognized as biological assets in a moment of planting seeds of these grain crops.

A gain or loss arising on initial recognition of a biological asset at fair value less estimated point-of-sale costs and from a change in fair value less estimated point-of-sale costs of a biological asset should be included in net profit or loss for the period in which it arises, and showed separately in the income statements.

Biological assets that are physically attached to land (grain crops) are measured at their fair value less estimated point-of-sale costs separately from the land.

(l) Approaches to determining fair value of biological assets

The Group examines quoted prices on active markets for producing and non-producing livestock and deems this to represent fair value. The Group's producing and non-producing livestock are measured based on this data.

Growing crops/grains that have not been planted are recognised at cost since this represents an approximate fair value and only an insignificant amount of processing has taken place since acquisition.

(m) Recognition of agricultural products and costs pertaining to biological assets

Agricultural products harvested from biological assets are recognised at fair value based on information on quoted prices on active markets. This value is measured in connection with every harvest. After the harvest, agricultural products are recognised as inventories in accordance with IAS 2 "Inventories" and measured at the lower of cost and fair value less cost to sell. If the fair value less cost to sell is less than cost, an impairment loss is recognised in the income statement for the agricultural products.

(n) Accounting for government grants

An unconditional government grant related to a biological asset measured at its fair value less estimated point-of-sale costs are recognized as income when, and only when, the government grant is paid. If a government grant related to a biological asset measured at its fair value less estimated point-of-sale costs is conditional, including where a government grant requires an enterprise not to engage in specified agricultural activity, the grant is recognized as income when, and only when, the conditions attached to the government grant are met. Before the moment of its recognition as an income government grant related to a biological asset is accounted as a long term liability and measured at discounted value.

Government grants related to other assets, i.e. other assets than biological assets measured at fair value, are recognised as deferred income and released to the income statement over the expected useful life of the related asset.

(o) Inventories

Agricultural produce following harvest is classified as inventories. The initial cost of the agricultural produce is equal to the fair value at the time of harvest. Inventories are measured at the lower of cost and net realisable value. If net realizable value is less than the cost of inventory, the carrying amount is reduced to the net realizable value and the difference is recognized in the income statement as loss from impairment of inventories. Net realisable value is the fair value of inventories (when an active market exists) which can be obtained from open sources, less the estimated costs to sell. If no active market for inventories exists, a professional appraisal of the most significant items of the inventories is made to determine the net realizable value.

The cost of inventories (which are not agricultural produce) comprises all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

*Note 2 continued***(p) Financial assets and liabilities**

Financial instruments recognised on the Group's balance sheet include investments, loans and promissory notes receivable, trade and other receivables, cash and cash equivalents, borrowings and promissory notes payable, trade and other payables. Financial instruments are initially recognised at cost, including transaction costs, when the Group has become a party to the contractual arrangement of the instrument. The initial cost equals fair value at the time.

A financial instrument or a portion of a financial instrument is derecognised, when the Group loses its contractual rights or extinguishes the obligation associated with such an instrument. On derecognition of a financial asset, the difference between the proceeds received or receivable and the carrying amount of the asset is included in the income statement. On derecognition of a financial liability the difference between the carrying amount of the liability extinguished or transferred to another party and the amount paid is included in the income statement.

INVESTMENTS

Investments, other than investments in subsidiaries, associates and joint venture, are initially measured at fair value on a trade date basis, including directly attributable transaction costs. Investments are classified in the following categories:

(i) Held-to-maturity investments

This category includes investments with fixed or determinable payments and fixed maturity, which the Group has the positive intention and ability to hold to maturity, other than loans and accounts receivable. Investments in this category are carried at amortised cost using the effective interest rate method less any allowance for impairment. Amortisation of discount or premium on the acquisition of a held-to-maturity investment is recognised in interest income over the term of the investment. Held to-maturity investments are included in non-current assets, unless they mature within twelve months of the balance sheet date. Interest income is recognised in net financial items.

(ii) Financial assets at fair value through profit and loss

This category includes investments that are held for trading and investments which at initial recognition were designated as belonging to this category. Financial assets at fair value through profit and loss are measured at fair value on an ongoing basis. Gains or losses arising from changes in fair value are recognised in the income statement in the period in which they occur.

(iii) Financial assets available for sale

All other investments, except for loans and accounts receivable, are included in this category. Available for sale financial assets are carried at fair value and changes are recognised in equity. When the assets are derecognised from the balance sheet, the cumulative gain or loss previously recognised in equity is recognised in the income statement.

LOANS AND RECEIVABLES

Loans, accounts and other receivables are initially recognised at their fair value and subsequently at their amortised cost less any bad debt allowances in the balance sheet. Provisions for probable bad debt losses/doubtful receivables are made after an individual evaluation of each customer based on ability to pay, anticipated future risk and the value of any guarantees received.

CASH AND CASH EQUIVALENTS

Cash and cash equivalents comprise cash balances, bank deposits as well as short term highly liquid investments with maturities of 90 days or less, that are readily convertible to known amounts of cash and are subject to an insignificant risk of changes in value. Short term investments consist of investments with a maturity of more than 90 days.

BORROWINGS

Loans and borrowings are initially recognised at fair value, which is the equivalent of proceeds received less any transaction costs, and subsequently at amortised cost. Premiums or discounts at the time a loan is issued are recognised over the period of the loan using the effective interest method in net financial items in the income statement.

ACCOUNTS PAYABLE

Accounts and other payable are initially recognised at fair value and subsequently at amortised cost using the effective interest method.

(q) Remuneration to employees*(i) Pension obligations*

The companies in the Group have various pension plans. The pension plans are normally financed through payments to insurance companies where amounts are based on periodic actuarial calculations. The Group only has defined contribution plans. A defined contribution plan is a plan under which the Group pays fixed contributions to a separate legal entity. The Group has no legal or informal obligations to pay additional contributions if this legal entity does not have sufficient assets to pay the employees full compensation linked to the employee's past and present service.

Note 2 continued

In the case of defined contribution pension plans, the Group pays contributions to publicly or privately managed pension insurance plans on an obligatory, contractual or voluntary basis. The Group has no further payment obligations once the contributions are paid. The contributions are recognised as personnel expenses when they are due. Prepaid contributions are recognised as an asset to the extent that cash payment or a reduction of future payments will accrue to the Group.

In Russia and Ukraine the Group pays contributions to the State Pension Fund of the respective countries. The Group has determined that these constitute defined contribution plans since the only obligation the Group has is to pay in the periods in which they arise. Contributions are recognised as an expense in the income statement in the period in which they arise.

(r) Taxes

The current tax expense is calculated applying the tax rules that are enacted or practically enacted as of the closing date in the countries where the parent company, its subsidiaries and associated companies operate and generate taxable income. Management assesses on a regular basis the claims made in income tax returns with respect to the situations where applicable tax rules are subject to interpretation and, if it is deemed necessary, makes provisions for probable payments to the tax authorities.

Deferred tax is accounted for in accordance with the balance sheet method on all temporary differences between the tax and book values of all assets and liabilities. Deferred tax is not recognised, however, if it arises as a result of a transaction that is the initial recognition of an asset or liability that is not a business combination and that, at the time of the transaction, affects neither the book nor the tax base. Deferred income tax is calculated using the tax rates (and rules) that has been decided or announced as of the closing date and that are expected to be in effect when the deferred tax asset or liability is settled. Deferred tax is recognised in the income statement, except for when the tax effect is attributable to items recognised directly in equity. In these cases, the deferred tax effect is recognised together with the underlying item directly in equity.

Deferred tax assets are recognised to the extent it is probable that future taxable profits will be available against which the temporary differences can be used.

Deferred tax is calculated on temporary differences that arise in interests in subsidiaries and associated companies, except when the timing of the reversal of the temporary difference cannot be controlled by the Group and it is likely that the temporary difference will not be reversed within the foreseeable future.

(s) Revenue recognition

Revenue from the sale of goods is recognised when all the following conditions have been satisfied:

- All significant risks and rewards of ownership of the goods has transferred to the buyer;
- The amount of revenue can be measured reliably;
- It is probable that the economic benefits associated with the transaction will flow to the Group; and
- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

Revenue comprises the invoiced value of sales, net of trade discounts and value added tax.

Sales of goods in exchange for similar goods, for example, grain to grain, aren't recognized in the revenue as the cost of such exchange cannot be reliably measured.

(t) Provisions

Provisions for restoration of the environment, restructuring costs and legal claims are recognised when the Group has a legal or informal obligation as a result of a previous event, it is likely that an outflow of economic resources will be required to settle the obligation and a reliable estimate of the amount can be made. Restructuring provisions are costs for terminations of leasing contracts and redundancy payments. Provisions are not made for future operating losses.

If there are several similar obligations, the probability of outflow of economic resources at the settlement of these obligations is assessed for the obligations as a group. A provision is recognised even if the probability for an outflow of economic resources for a particular item in the group of obligations is remote.

The provisions are carried at the present value of the amount that is expected to be required to settle the obligation. A discount rate before tax reflecting the current market assessment of the time value of money and the risks associated with the provision is used. An increase in a provision due to the passage of time is accounted for as interest expense.

(u) Interest expense

Interest on borrowings related to major qualifying capital projects under construction is capitalised during the construction period in which they are incurred. Once a qualifying capital project has been fully commissioned, the associated interest is expensed in the income statement as and when incurred. Interest on borrowings related to operating activities is expensed in the income statement as and when incurred.

*Note 3 continued***(v) Leases**

Leases where a significant portion of the risks and rewards associated with ownership are retained by the lessor are classified as operating leases. Payments made during the lease period (less any incentives from the lessor) are expensed in the income statement on a straight line basis over the term of the lease.

Finance leases, which transfer to the Group substantially all the risks and benefits incidental to ownership of the leased item, are capitalised at the commencement of the lease at the fair value of the leased property or, if lower, at the present value of the minimum lease payments.

Lease payments are apportioned between finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are recognised in the income statement. Leased assets are depreciated over the useful life of the asset. However, if there is no reasonable certainty that the Group will obtain ownership by the end of the lease term, the asset is depreciated over the shorter of the estimated useful life of the asset and the lease term.

NOTE 3 – CRITICAL ESTIMATES AND JUDGEMENTS FOR ACCOUNTING PURPOSES

The critical estimates and judgements for accounting purposes that are addressed in this section are those that management and the Board deem to be the most important in order to gain an understanding of the Group's financial statements, taking into account the degree of significant influence and uncertainty. These estimates are based on past experience and the various judgements that management and the Board deem to be reasonable under the present circumstances. The conclusions drawn form the basis for the carrying amounts of assets and liabilities unless these cannot be established through information from other sources. Actual outcomes may differ from these estimates if other judgements are made or other conditions arise. Note 2 describes the accounting policies the Group has decided to use.

Significant estimates and judgements for accounting purposes relate to the following areas.

(a) Useful life of fixed assets

Fixed assets of the Group are depreciated on a straight-line basis over the asset's estimated useful life. Management periodically reviews the appropriateness of useful lives of assets. The review is based on the current condition of the assets and the estimated period during which they will continue to bring economic benefit to the Group.

(b) Impairment

The Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets are impaired. In making the assessment for impairment, assets that do not generate independent cash flows are allocated to an appropriate cash-generating unit. Management necessarily applies its judgment in allocating assets that do not generate independent cash flows to appropriate cash-generating units, and also in estimating the timing and value of underlying cash flows within the value in use calculation. Subsequent changes to the cash-generating unit allocation or to the timing of cash flows could impact the carrying value of the respective assets.

(c) Fair value of land usage rights

The Group's agricultural land usage activity is subject to various laws and regulations governing the protection of the environment. The Group estimates fair value of land usage rights at the moment of acquisition of subsidiaries, which has operational land lease agreements, based on management's understanding of the current legal requirements in the various jurisdictions, terms of the land lease agreements and internally generated engineering estimates.

(d) Tax risk

A high degree of estimation is involved in determining the provisions needed for income tax. There are many transactions and calculations where the final tax is not known with certainty at the time of the transactions and calculations are made. The Group recognises liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the amount of current and deferred tax provisions in the period in which such determination is made.

(e) Contingencies

By their nature, contingencies will only be resolved when one or more future events occur or fail to occur. The assessment of such contingencies inherently involves the exercise of significant judgement and estimates of the outcome of future events.

NOTE 4 – SEGMENT REPORTING

The Group currently has two segments, Russia and Ukraine. The segment information, for those segments for which information should be disclosed, that has been given to management for the year is the following:

12 months ended 31 December 2008, KSEK	Russia	Ukraine
Revenue		
Sales	30,228	39
	30,228	39
Segment results		
Operating profit/(loss)	-66,548	-2,019
Interest income	-11,258	-
Finance costs	-30,544	-928
Profit/(loss) before tax	-116,473	-13,313
Income tax	8,853	1,023
Profit/(loss)	-107,531	-12,290
Assets and liabilities		
Property, plant and equipment	418,220	7,995
Biological assets	86,535	11,602
Goodwill	9,029	
Other assets	691,786	19,098
Total assets	1,205,570	38,696
Other liabilities	-1,334,894	-53,804
Total liabilities	-1,334,894	-53,804

12 months ended 31 December 2007, KSEK	Russia	Ukraine
Revenue		
Sales	15,372	
	15,372	
Segment results		
Operating profit/(loss)	-19,250	
Interest income,	85,594	
Finance costs	-3,433	
Profit/(loss) before tax	57,782	
Income tax	-15,902	
Profit/(loss)	41,879	
Assets and liabilities		
Property, plant and equipment	66,439	
Biological assets	15,842	
Goodwill	7,299	
Other assets	231,524	
Total assets	321,105	
Other liabilities	-627,422	
Total liabilities	-627,422	

NOTE 5 – ACQUISITION OF SUBSIDIARIES

In 2008 the following material subsidiaries were acquired in Russia. The acquisitions are listed in alphabetical order below.

(i) LLC Agrofirma Kolos

On 12 May 2008, the Group acquired 100% share in Limited Liability Company "Kolos" (Kolos), a company engaged in grain planting in Lipetsk region, for a cash consideration of 253 KSEK.

The Company contributed 389 KSEK of revenue and -4,637 KSEK of income before taxation from the date of acquisition to 31 December 2008. If the combination had taken place at the beginning of the year, the profit for the Group would have been affected by approximately -8,984 KSEK while the revenue would have been 793 KSEK higher.

The purpose of the acquisition was to gain control of Kolos' operations in the Lipetsk region.

(ii) LLC Agrokultura Zhivotnovodstvo

On 31 July 2008, the Group acquired 98 per cent share in Limited Liability Company "Agrokultura Zhivotnovodstvo" (Zhivotnovodstvo), a company engaged in dairy farming in Voronezh region, for a consideration of 17,640 KSEK which consisted of 2,586 KSEK contributed as 14.2 per cent interest in share capital, 9,106 KSEK paid to acquire the remaining 83.8 per cent interest, and 5,948 KSEK loan repayment.

The purpose of the acquisition was to gain control of Zhivotnovodstvo's operations in the Voronezh region and to start dairy farming.

Zhivotnovodstvo contributed 1,991 KSEK of revenue and -3,183 KSEK in income before taxation from the date of acquisition to December 31, 2008.

(iii) LLC Rodina – Lev Tolstoy

On 23 Sep 2008, the Group acquired 100% share in Limited Liability Company "Rodina" Lev-Tolstoy (Rodina), a company engaged in grain planting in Lipetsk region, for a consideration of 8,810 kSEK which consisted of 1,215 KSEK in cash and the fair value of 2008 harvest less 4,000 tons of grain. The purpose of the acquisition was to gain control of Rodina's operations in the Lipetsk region.

The Company contributed 770 KSEK of revenue and -3,774 KSEK of income before taxation from the date of acquisition to 31 Dec 2008. If the combination had taken place at the beginning of the year, the net income for the Group would have been approximately the same.

Other acquisition in Russia

During 2008 the Group also acquired the following companies in Russia, LLC Alexandrovskoe, LLC Niva-Center-Chernoizemie, LLC Agrokultura Mordova, LLC Tambov Agro, LLC Berezovskoe, LLC Agrokultura Kursk,

Note 5 continued

LLC Chastoozerie Agro and LLC Agrohim for a total consideration of 10,592 KSEK. These companies contributed 9,985 KSEK of revenue and –17,280 KSEK of income after taxation. The companies are engaged in mainly grain planting but also dairy farming in the regions Tambov, Voronezh, Kursk, Kurgan and Lipetsk.

Acquisitions in Ukraine

During 2008 the Group acquired 100% of the following companies in Ukraine, LLC Agrokultura Ivano-Frankivsk, LLC Agrokultura Lviv, LLC Agrokultura Volyn, LLC Agrokultura Mostyska, LLC Agrokultura Poltava and LLC Agrokultura Ternopil. The consideration paid amounted to a total of 318 KSEK. The companies are engaged in grain plant-

ing in the regions Poltava, Lviv, Ternopil, Volyn and Ivano-Frankivsk.

The purpose of the acquisitions was to gain control over the Companies' operations.

Prior to being acquired by the Group, none of the companies listed above prepared financial statements in accordance with IFRS. Hence it was not practicable to determine the carrying amounts of the acquired assets, liabilities and contingent liabilities in accordance with IFRS immediately before the acquisition, and such information is not presented in the table below. The excess of the cost over fair value of identifiable assets, liabilities and contingent liabilities are recognised as goodwill.

2008

SEK thousands	Rodina – Lev Tolstoy fair value	Kolos fair value	Zhivotno- vodstvo fair value	Other fair value	Total fair value
Acquired assets and liabilities					
Tangible fixed assets	7,559	14,450	14,071	12,237	48,317
Intangible fixed assets	3,470	6		2,313	5,789
Biological assets	12,221	3,002	2,401	5,407	23,031
Deferred tax assets		136		2,118	2,254
Inventories	5,769	4,492		2,197	12,458
Accounts receivable and other receivables	2,556	5,935		4,842	13,333
Investments in securities and other financial assets		1,891		26	1,917
Tax assets		1,201		252	1,453
Cash and cash equivalents	175	761	2,586	1,009	4,531
Borrowing	–18,119	–27,023		–4,612	–49,754
Accounts payable and other liabilities	–5,340	–3,683		–12,537	–21,560
Tax liabilities	–51	–176		–14	–241
Deferred tax liabilities	–127	–743	–165	–1,475	–2,510
Net identifiable assets and liabilities	8,113	249	18,893	11,763	39,018
The Group's share of identifiable assets and liabilities					
Plus: Goodwill	698	4		711	1,413
Less: Negative Goodwill			–875	–1,564	–2,439
Less: Minority interest			–378	–	–378
Total consideration	8,811	253	17,640	10,910	37,614
Effect on the Group's liquid assets:					
Cash paid	–8,811	–253	–17,640	–10,910	–37,614
Cash and cash equivalents in acquired companies	175	761		1,009	1,945
Net effect on the Group's cash and cash equivalents	–8,636	508	–17,640	–9,901	–35,669

Negative goodwill of 2,439 KSEK pertaining to the acquisitions of Zhivotnovodstvo, Niva-Center-Chernozemie and Agrohim have been recognised in the income statement.

Note 5 continued

2007

SEK thousands	Donskoe fair value	Borelskiy fair value	Other fair value	Total fair value
Acquired assets and liabilities				
Tangible fixed assets	8,915	9,083	7,311	25,309
Intangible fixed assets	24,256	–	3,933	28,189
Biological assets	3,195	–	1,548	4,743
Deferred tax assets	–	–	250	250
Inventories	812	230	1,903	2,945
Accounts receivable and other receivables	1,478	496	1,874	3,848
Investments in securities and other financial assets	–	–	4,758	4,758
Tax assets	–	267	64	331
Cash and cash equivalents	5	83	1,012	1,100
Borrowing	–4,023	–4,813	–13,251	–22,087
Accounts payable and other liabilities	–2,829	–1,466	–5,042	–9,337
Tax liabilities	–	–	–100	–100
Deferred tax liabilities	–6,013	–2,011	–2,079	–10,103
Net identifiable assets and liabilities	25,796	1,869	2,181	29,846
Plus: Goodwill	4,065	209	2,824	7,098
Less: Negative Goodwill	–	–	–94	–94
Total consideration	29,861	2,078	4,911	36,850
Effect on the Group's liquid assets:				
Cash payment	–29,861	–2,078	–4,911	–36,850
Cash and cash equivalents in acquired companies	5	83	1,012	1,100
Net effect on the Group's cash and cash equivalents	–29,856	–1,995	–3,899	–35,750

Negative goodwill of KSEK 94 pertaining to the acquisition of Bitug Plus has been recognised in the income statement.

NOTE 6 – REVENUES

SEK thousands	2008	2006/2007
Per product		
Grain farming	12,230	13,773
Milk sales	6,394	465
Grain processing	4,741	1,136
Other	6,902	–
	30,267	15,374

Government grants

SEK thousands	2008	2006/2007
Government grants	10,309	–
Total	10,309	–

Government grants have been received for the purchase of seeds, fertilizers and other materials to support consumable biological assets cultivating. All grants are related to biological assets and recognized as income according to IAS 41.

There are no unfulfilled conditions or contingencies attached to these grants.

NOTE 7 – COST OF GOODS SOLD

SEK thousands	2008	2006/2007
Cost of feed and maintenance of biological assets	25,772	304
Transport costs	86	146
Cost of materials and personnel costs pertaining to farming	10,685	8,197
Repairs and maintenance	7,391	6,849
Spoilage	500	–
Fodder expenses & biological assets maintenance expenses	1,815	–
Rent costs	2,919	1,416
Other	6,166	338
Total	55,334	17,250

Cost of goods sold includes goods and services acquired from related parties 4,202 KSEK (0).

NOTE 8 – TAX

SEK thousands	2008	2006/2007
Current tax	-30	-989
Deferred tax	9,906	4,173
Summa	9,876	3,184

The table below is a reconciliation of the theoretical tax, calculated on the tax value in Russia (20%) and Ukraine (25%) which are the Group's main business areas, against the actual tax reported in the income statement.

SEK thousands	2008	2006/2007
Earnings before tax	-105,968	-21,960
Theoretical income tax, 24–28% (24–28%)	26,189	5,217
Effect of changed tax rates	-4,350	-
Impact of specific tax rates	1,645	-
Non-taxable items	2,077	472
Non-deductible items	-2,315	-1,237
Tax losses for which deferred tax is not recognised	-13,370	-1,268
Reported tax	9,876	3,184

Deferred tax assets and liabilities are relate to the following:

	2008	2006/2007
Deferred tax assets		
Land rights	1,595	1,597
Tax loss carry usage forwards	16,823	-
Other	2,411	2,925
	20,829	4,522

Deferred tax liabilities

Tangible fixed assets	7,398	3,197
Land rights	6,673	6,371
Biological assets	1,568	-
Other	992	583
	16,631	10,151
Deferred tax liability, net	4,198	5,629

NOTE 9 – TANGIBLE FIXED ASSETS**2007**

SEK thousands	Acquisition value					Assets under construction	Total
	Buildings	Agric. Land	Agric. machinery	Vehicles & other assets			
Acquisition of subsidiaries	17,469	20	6,417	1,468	-	25,374	
Recent acquisitions	3,357	-	37,783	2,478	1,413	45,031	
Disposal	-220	-	-23	-24	-	-267	
Translation differences	-266	-	-572	-50	-18	-906	
31 December 2007	20,340	20	43 605	3,872	1,395	69,232	

SEK thousands	Depreciation					Assets under construction	Total
	Buildings	Agric. Land	Agric. machinery	Vehicles & other assets			
Depreciation	-438	-	-2,562	-448	-	-3,448	
Translation difference	6	-	33	5	-	44	
31 December 2007	-432	-	-2,529	-443	-	-3,404	

Net book value

31 December 2007	19,908	20	41,076	3,429	1,395	65,828
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As of December 31, 2007 no assets were pledged as security for bank loans.

Note 9 continued

2008

SEK thousands	Acquisition value					Total
	Buildings	Agric. Land	Agric. machinery	Vehicles & other assets	Assets under construction	
31 December 2007	20,340	20	43,605	3,872	1,395	69,232
Acquisition of subsidiaries	19,021	497	27,205	1,920	–	48,643
Recent acquisitions	–	13,728	262,394	32,079	41,686	349,887
Re-classification	12,732	–	5,138	–	–17,870	–
Disposal	–873	–	–764	–479	–	–2,116
Translation differences	65	–55	–795	–88	–79	–952
31 December 2008	51,285	14,190	336,783	37,304	25,132	464,694

SEK thousands	Depreciation					Total
	Buildings	Agric. Land	Agric. machinery	Vehicles & other assets	Assets under construction	
31 December 2007	–432	–	–2,529	–443	–	–3,404
Acquisition of subsidiaries	–	–	–	–	–	–
Depreciation	–1,633	–	–28,296	–5,153	–	–35,082
Disposals	12	–	152	146	–	310
Translation differences	5	–	86	15	–	106
31 December 2008	–2,048	–	–30,587	–5,435	–	–38,070

Net book value

31 December 2008	49,237	14,190	306,196	31,869	25,132	426,624
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Assets under construction are reclassified when construction is completed. At the end of 2008 the main part of the balance related to the construction of a dairy farm and an elevator.

Leased tangible fixed assets

Agricultural machinery includes equipment leased from a third party by 560 KSEK (608). At the end of the lease term, ownership of the equipment is transferred to the Group. As of 31 December 2008 agricultural equipment with a book value of KSEK 560 (608) was pledged as security for leases.

NOTE 10 – INTANGIBLE FIXED ASSETS**2007**

SEK thousands	Goodwill	Land rights	Other	Total
Accumulated fixed assets				
Recent acquisitions	–	–	58	58
Acquisition of subsidiaries	7,428	28,518	–	35,946
Translation differences	–95	–368	–	–463
31 December 2007	7,333	28,150	58	35,541
Accumulated impairment				
Impairment	–	–1,200	–4	–1,204
Translation differences	–	16	–	16
31 December 2007	–	–1,184	–4	–1,188
Net book values				
31 December 2007	7,333	26,966	54	34,353

Note 10 continued

2008

SEK thousands	Goodwill	Land rights	Other	Total
31 December 2007	7,333	28,150	58	35,541
Recent acquisitions	83	–	220	303
Acquisition of subsidiaries	1,745	6,192	–	7,937
Translation differences	–49	234	17	202
31 December 2008	9,112	34,576	295	43,984
Accumulated impairment				
31 December 2007	–	–1184	–4	–1,188
Impairment	–	–3,503	–1	–3,504
Translations differences	–	3	–	3
31 December 2008	–	–4,684	–5	–4,689
<i>Net book values</i>				
31 December 2008	9,112	29,893	290	39,295

Intangible fixed assets, except for goodwill, have determinable useful lives over which they are amortised. Land rights are amortised over the term of the lease, which averages 8 years. When ownership of the land is transferred to the Group they are reclassified as land and amortisation ceases. The average amortisation period for other intangible assets, mainly software, is 5 years.

NOTE 11 – INVESTMENTS IN SECURITIES AND OTHER FIXED ASSETS

SEK thousands	2008	2006/2007
Equities and equity-related securities available for sale, cost of acquisition	–	3,392
Loans in roubles	10,276	652
Prepayments in roubles	289,328	113,827
Total long-term	299,604	117,871

Equity securities represents prepayments for shares of subsidiaries which were acquired in January 2008.

Rouble denominated loans mature in 2009–2010 and have an interest rate of 3 per cent.

Prepayments given to third parties mainly represents payments made for land acquisition & registration services and fixed assets acquisition. Land estate rights registration process is longterm.

NOTE 12 – INVENTORIES

SEK thousands	2008	2006/2007
Supplies and materials	26,916	7,148
Less: Obsolescence reserve	–1,804	–789
Net supplies and materials	25,112	6,359
Agricultural products	136,208	3,937
Total inventories	161,320	10,296

NOTE 13 – BIOLOGICAL ASSETS**2007**

SEK thousands	31 December 2007			
	Consumable		Bearer	
	Mature	Immature	Mature	Immature
Opening balance	–	–	–	–
Acquisitions	–	21,101	–	–
Acquisition of subsidiaries	–	3,525	778	433
Disposals	–	–5	–	–197
Change in fair value (biological conversion)	–	–6,586	–54	–16
Reduction due to harvest (agricultural products)	–	–3,297	–	–
Book value on 31 December 2007	–	14,738	724	220

2008

SEK thousands	31 December 2008			
	Consumable		Bearer	
	Mature	Immature	Mature	Immature
Opening balance	–	14,738	724	220
Acquisitions	–	213,733	3,283	4,636
Acquisition of subsidiaries	–	13,983	5,000	1,331
Disposals	–	–325	–175	–
Change in fair value (biological conversion)	–	36,593	341	–789
Re-classifications	197,366	–197,366	–	–
Reduction due to harvest (agricultural products)	–197,366	–	–	–
Translation differences	–	2,266	–36	–21
Book value on 31 December 2008	–	83,622	9,137	5,377

Bearer biological assets are presented by cattle & young stock, feeder livestock, plow cattle and pigs. They would normally generate income for 5–8 years. In line with IAS 41 – Agriculture, these assets are recognized at fair value, which is reviewed every reporting date. Consumable biological assets are presented by grain crops of wheat and rye, which is shown under current assets section of balance sheet, due to they would normally transferred to agricultural produce during one year.

Biological assets are measured on initial recognition and at each balance sheet date at fair value. Any changes in fair value are recognized in the income statement in the year in which they arise.

The fair value of livestock is based on market prices of livestock of similar age and sex. Where meaningful market determined prices do not exist to assess the fair value of the group's other biological assets, the fair value is determined based on the net present value of expected cash flows, discounted at appropriate current market-determined pre-tax rates.

Productive cattle with fair value of 3,774 KSEK is pledged to secure long-term bank loans of the Group.

NOTE 14 CASH AND CASH EQUIVALENTS

SEK thousands	2008	2006/2007
Petty cash	12	5
Bank deposit	1,345	–
Deposit account	104,263	186,588
Total	105,620	186,593

NOTE 15 – OTHER RECEIVABLES

SEK thousands	2008	2006/2007
Issued payment receivable	–	360,000
Value added tax	69,586	10,449
Loans	47,573	–
Advance payments	32,177	8,217
Deposits	–	30,671
Other receivables	25,434	5,431
Total	174,770	414,768

In 2007 the Group paid a deposit of 30,671 KSEK in relation to an order of tractors and farming equipment. The deposit was repaid in connection to the delivery of the tractors in 2008.

NOTE 16 – OTHER LIABILITIES

SEK thousands	2008	2006/2007
Other liabilities	3,104	5,276
Prepayments	–	732
Value added tax	826	782
Employee withholding taxes	771	138
Provisions	–	3,961
Other taxes	1,216	315
Total	5,917	11,204

NOTE 17 – ACCRUED EXPENSES

SEK thousands	2008	2006/2007
Accrued interest expenses	127	51
Accrued personnel costs	3,534	464
Accrued audit fees	310	1,004
Accrued issue costs	–	17,535
Other	2,916	124
Total	6,887	19,178

NOTE 18 – SHARES IN GROUP COMPANIES

Directly owned	Country of incorporation	Nature of business	Ownership interest, %		Date of acquisition
			2008	2007	
ARLF Agrokultura	Nicosia, Cyprus	Holding company	100,00	100,00	2007
Larontas Ltd	Nicosia, Cyprus	Holding company	100,00	–	2008-05-07
Rusar Agro S.A.	Luxembourg	Finance company	100,00	–	2008-12-31

Indirectly owned	Country of incorporation	Nature of business	Ownership interest, %		Date of acquisition
			2008	2007	
LLC Agrokultura Ertil	Voronezh, Russian Federation	Grain planting	100.00	100.00	2007-04-26
LLC Agrofirma Pervomaiskoye	Voronezh, Russian Federation	Grain planting	100.00	100.00	2007-03-30
LLC Sinegorie-Invest	Volgograd, Zhirnovsk, Russian Federation	Grain planting	100.00	100.00	2007-03-14
LLC Agro-Don-L	Lipetsk, Russian Federation	Grain planting	100.00	100.00	2007-10-19
LLC Agrokultura Vorobiovskoye	Voronezh, Russian Federation	Grain planting	100.00	100.00	2007-11-20
LLC Dina	Tambov, Russian Federation	Grain planting	100.00	100.00	2007-10-25
LLC Donskoye	Voronezh, Russian Federation	Grain planting	100.00	100.00	2007-07-16
LLC Borelskiy Melzavod	Volgograd, Zhirnovsk, Russian Federation	Grain processing	100.00	100.00	2007-03-14
LLC Rodina Lev-Tolstoy	Lipetsk, Russian Federation	Grain planting	100.00	–	2008-09-23
LLC Alexandrovskoe	Volgograd, Russian Federation	Grain planting	100.00	–	2008-01-01
LLC Niva-Center-Chernozemie	Voronezh, Russian Federation	Grain planting	51.00	–	2008-01-01
LLC Agrokultura Lev-Tolstoy	Lipetsk, Russian Federation	Grain planting	100.00	–	2008-01-15
LLC Agrokultura Mordova	Tambov, Russian Federation	Grain planting	100.00	–	2008-03-30
LLC Agrokultura Kursk	Kursk, Russian Federation	Grain planting	100.00	–	2008-05-13
LLC Chastoozerie	Kurgan, Russian Federation	Grain planting	100.00	–	2008-05-12
LLC Tambov-Agro	Tambov, Russian Federation	Grain planting	100.00	–	2008-04-01
LLC Agrofirma Kolos	Lipetsk, Russian Federation	Grain planting	100.00	–	2008-05-12
LLC Agrokultura Kamenka	Voronezh, Russian Federation	Grain planting	100.00	–	2008-09-24
LLC Agrokultura Talovaya	Voronezh, Russian Federation	Grain planting	100.00	–	2008-06-30
LLC Agrohimi	Voronezh, Russian Federation	Grain planting	100.00	–	2008-07-01
LLC Agrokultura Lviv	Lviv, Ukraine	Grain planting	100.00	–	2008-05-30
LLC Agrokultura Mostyska	Lviv, Ukraine	Grain planting	100.00	–	2008-08-05
LLC Agrokultura Volyn	Volyn, Ukraine	Grain planting	100.00	–	2008-09-10
LLC Agrokultura Ivano-Frankivsk	Ivano-Frankivsk, Ukraine	Grain planting	100.00	–	2008-08-04
LLC Agrokultura Poltava	Poltava, Ukraine	Grain planting	100.00	–	2008-10-29
LLC Agrokultura Ternopil	Ternopil, Ukraine	Grain planting	100.00	–	2008-08-04

Note 18 continued

Indirectly owned	Country of incorporation	Nature of business	Ownership interest, %		Date of acquisition
			2008	2007	
LLC Bitug Plus	Voronezh, Russian Federation	Dairy farming, grain planting	100.00	100.00	2007-07-10
LLC Berezovskoe	Voronezh, Russian Federation	Dairy farming, grain planting	100.00	–	2008-04-25
LLC Agrokultura Zhivotnovodstvo	Voronezh, Russian Federation	Dairy farming, grain planting	98.00	–	2008-07-30
LLC Rodina (Kamenka)	Voronezh, Russian Federation	Dairy farming, grain planting	100.00	–	2008-07-01
CJSC Agrokultura	Tyumen, Russian Federation	Holding company	100.00	100.00	2007-06-09
CJSC Enisey	Tyumen, Russian Federation	Holding company	100.00	100.00	
LLC UK Agrokultura	Voronezh region, Russian Federation	Management company	–	–	2008-04-01

Joint ventures and joint control operations	Country of incorporation	Nature of business	Ownership interest, %		Date of acquisition
			2008	2008	
Kolybelskoe, LLC	Lipetsk, Russian Federation	Cattle breeding, grain planting	50.00	–	2008-05-12
Kolos – Rodina Partnership	Lipetsk, Russian Federation	Grain planting	65.42	–	2008-05-12
Agrokultura Dmitrov, LLC	Kursk, Russian Federation	Grain planting	50.00	–	2008-05-13
Agrokultura Homoutovka, LLC	Kursk, Russian Federation	Grain planting	50.00	–	2008-05-13

The Kolos-Rodina Partnership is owned by 65.42 per cent but is a Joint Venture where, by agreement, none of the parties have control and consequently it is not consolidated.

NOTE 19 – PERSONNEL

Remuneration to senior executives

(i) Board fees

According to an AGM resolution the fees for 2008 for elected external Board members totalled SEK 650,000, of which SEK 250,000 was for the Chairman of the Board and SEK 100,000 was equally distributed between the other members. The CEO did not receive any separate fees as a Board member.

(ii) CEO

The CEO received a fixed salary of SEK 765,000 per year. The CEO was covered by a defined-contribution pension system and received of 25 per cent of his salary as pension premiums. According to the defined-contribution system, the Group pays premiums on an annual basis. The premiums for the CEO are shown in the table below.

The notice period for the CEO is twelve months.

In September Carl Aschan resigned as CEO of the Group. According to the employment agreement 12 months of salary plus pension premiums has been provided for. The provision amounts to 1,595 KSEK and is included in accrued expenses.

In relation to Carl Aschan's resignation Björn Lindström was appointed as new CEO. Björn Lindström receives his remuneration from Alpcot Capital Management Ltd.

Salaries and other remuneration, pension costs and other social security costs

	2008	2006/2007
Sweden		
Board and senior executives	2,323	1,373
Pension costs	450	181
Other employees	2,373	–
Pension costs	233	181
Social security costs	1,092	475
Total	6,471	2,210
Russia		
Management	4,302	2,589
Other employees	36,542	1,918
Pension costs	6,390	511
Social security costs	2,444	816
Total	49,678	5,834
Ukraine		
Management	158	–
Other employees	670	–
Pension costs	240	–
Social security costs	26	–
Total	1,094	–
Total	57,243	8,044

Note 19 continued

Gender distribution

Board members and CEO of	
Parent company	5
of which men	4
of which women	1

Average number of employees

	2008			2007		
	Total	Men	Women	Total	Men	Women
Sweden	3	2	1	3	2	1
Russia	990	698	292	79	54	25
Ukraine	22	16	6	–	–	–
Total	1,015	716	299	80	55	25

NOTE 20 – EQUITY

Financing

The Group has so far financed its operations and expansion into Russia and Ukraine through equity by issuing new shares when there has been a need for further capital. In March 2009 the Group however, as described in Note 27, issued a convertible loan in order to strengthen the liquidity and to have funds to cover future capital needs. Capital intensive investments may in the future to some extent be financed through loans and leasing.

Translation differences in equity

As of December 31, 2008 the translation differences recognised directly in equity amounts to –8,471 KSEK (–7,450). Translation differences arise upon translation of foreign operations' balance sheet and income statement when assets and liabilities are translated at the exchange rate prevailing on the balance sheet date and when revenue and expenses are translated at the average exchange rate for the year. Translation differences also arise when translating monetary assets and liabilities denominated in foreign currencies at the exchange rate prevailing at the balance sheet date. Those differences are normally recognised in the income statement, however, with the exception of loans denominated in foreign currencies which are accounted for as a hedge of an investment in a foreign operation. Those differences are recognised in equity.

Management of capital

Management manages capital which has not yet been used for investments or in the operations by placing available funds with different credit institutions with high credit ratings and with the highest possible return.

Number of shares

During 2008 two new share issues have been completed which increased the total number of shares with 8,140,000.

Number of shares at the beginning of the year	15,240,700
Registration of new issue in progress	6,000,000
New share issues	8,140,000
Number of shares at the end of the year	29,380,700

NOTE 21 – TRANSACTIONS WITH RELATED PARTIES

Through a management agreement the Group has retained Alpcot Capital Management Ltd (ACM) as Investment Manager to execute its investment strategy. ACM is controlled by a number of the Group's shareholders. ACM provides proposals and recommendations regarding investments and other important issues, and also executes the investments the Group decides to make. Final decisions are made by the Board of Directors or CEO. ACM receives a fee of 2.25 per cent per year of the Group's total capital raised before issue costs. ACM is also entitled to a performance fee based on the Company's increase in value, calculated according to a certain criteria, as of January 31, 2012. This performance fee is to be 15 per cent of the value increase in excess of 8 per cent.

During the financial year a management fee of 26,579 KSEK (7,194) was charged from ACM.

The management agreement with ACM is under re-negotiation, see Note 27.

For information about remuneration to the Board and CEO, see Note 19.

NOTE 22 – INCOME/LOSS FROM INVESTMENTS

	2008	2006/2007
Impairment of investments,		
Joint ventures	–10 389	–
Income / Loss from Joint Ventures	–3 388	–
Other	40	295
Total	–13 737	295

NOTE 23 – AUDITORS' FEES

Fees for audit assignments and other assignments were expensed during the year where the same audit firm had the assignment as auditor for the individual company. Audit assignments include examining the annual accounts and the administration of the Company by the Board and CEO. All other assignments are labelled Other assignments.

	2008	2006/2007
Ernst & Young		
Audit assignment	1,549	1,196
Other assignment	207	151
Total	1,756	1,347

NOTE 24 – OBLIGATIONS*(i) Social obligations*

The Group pays into mandatory and voluntary social programmes and has certain social assets at the locations where it operates. The contributions are recorded in the period in which they arise.

(ii) Operating leases

Certain part of the land where Group's production facilities are located is owned by physical persons & the state. The Group has entered into operating leases to use this land. These leases have an average life of between one and forty nine years with renewal options included in the contracts. There are no restrictions placed upon the Group by entering into these leases. Future annual minimum lease payments due under non-cancellable operating lease agreements at 31 December 2008 are as follows:

SEK thousands	31 December	
	2008	2007
Lease payments within 1 year	414	294
Lease payments between 1 and 5 years	196	148
Lease payments after 5 years	–	1,097
	610	1,539

NOTE 25 – CONTINGENT LIABILITIES*(i) Litigation*

The Group has a number of small claims and litigation relating to its operating activities. Management believes that none of these claims, individually or in aggregate, will have a material adverse impact on the Group.

*(ii) Contingent liabilities relating to tax**Russia*

The taxation system in the Russian Federation is at a relatively early stage of development, and is characterised by numerous taxes, frequent changes and inconsistent enforcement at federal, regional and local levels.

The government of the Russian Federation has commenced a revision of the Russian tax system and passed certain laws implementing tax reform. The new laws reduce the number of taxes and overall tax burden on businesses and simplify tax legislation. However, these new tax laws continue to rely heavily on the interpretation of local tax officials and fail to address many existing problems. Many issues associated with practical implication of new legislation are unclear and complicate the Group's tax planning and related business decisions.

In terms of Russian tax legislation, authorities have a period of up to three years to re-open tax declarations for further inspection. Changes in the tax system that may be applied retrospectively by authorities could affect the Group's previously submitted and assessed tax declarations.

While management believes that it has adequately provided for tax liabilities based on its interpretation of current and previous legislation, the risk remains that tax authorities in the Russian Federation could take differing positions with regard to interpretative issues. This uncertainty may expose the Group to additional taxation, fines and penalties that could be significant.

Ukraine

The taxation system in Ukraine is at a relatively early stage of development, and is characterised by numerous taxes, frequent changes and inconsistent enforcement at federal, regional and local levels.

In terms of Ukrainian tax legislation, authorities have a period of up to three years to re-open tax declarations for further inspection. Under certain circumstances reviews may cover longer periods. Changes in the tax system that may be applied retrospectively by authorities could affect the Group's previously submitted and assessed tax declarations.

While management believes that it has adequately provided for tax liabilities based on its interpretation of current and previous legislation, the risk remains that tax authorities in Ukraine could take differing positions with regard to interpretative issues. This uncertainty may expose the Group to additional taxation, fines and penalties that could be significant.

(iii) Agriculture-related contingent liabilities

The Group is subject to extensive federal and local agricultural control and regulations. Company management is of the opinion that the technologies used in farming meet the current farming legislation criteria in Russia. Agricultural laws and regulations are, however, constantly being developed. Management cannot predict when or to what extent these laws and regulations will be amended. Any amendments, if these occur, may require the Group to modernise its technology to meet more stringent standards.

Management assesses on a regular basis possible agriculture-related obligations relating to the Group's operations. These assessments are based on the management's understanding of the current legal requirements and the length of the land leases.

(iv) Russia

Russia is a developing market and as such does not have a fully developed regulatory framework for business, such as stable banking and legal systems, which are present in more developed market economies. The Russian economy is characterised by a currency that is not fully convertible outside Russia, currency controls, low liquidity bond and equity markets and rising inflation. Business activity in Russia is therefore associated with risks that are not normally associated with business in more developed markets.

Note 25 continued

The stability and progress of the Russian economy depends on how effective the Government's economic policies are and on the future development of legal and economic systems.

(v) Ukraine

As an emerging market, Ukraine does not possess a fully developed business and regulatory infrastructure including stable banking and judicial systems, which would generally exist in a more mature market economy. The economy of Ukraine is characterised by a currency that is not freely convertible outside of the country, currency controls, low liquidity levels for debt and equity markets, and high inflation. As a result operations in Ukraine involve risks that are not typically associated with those in more developed markets.

Stability and success of the Ukrainian economy depends on the efficacy of the government economic policies and the continued development of legal and political systems.

(vi) Other

As outlined in Note 21 – Transactions with related parties, the Group has a management agreement with Alpcot Capital Management Ltd (ACM), in which ACM has the right to a performance fee. As is also disclosed in Note 21 the Group has chosen not to make a provision for a possible earned performance fee since management estimates that there is no accrued performance fee as of December 31, 2008.

The Company has taken legal action against a former director in one of the subsidiaries in Ukraine. The former director has exceeded his authority and his action has led to the Company losing possession of weed killers to a value equivalent of 950 KSEK. The Company's assessment is that it will be able to recover the value in full.

NOTE 26 – RISK MANAGEMENT

In addition to business risk, the Group's operations are exposed to credit, currency, liquidity and interest rate risks. The Group has implemented a risk management structure and has adopted a series of risk management and control procedures to facilitate the measurement, evaluation and control of these exposures and related risk management activities.

(i) Concentration of credit risk

Credit risk is the risk that a customer or supplier may default or not meet its obligations to the Group on a timely basis, leading to financial loss to the Group.

The Group has adopted a policy of only dealing with creditworthy counterparties and obtaining sufficient collateral, where appropriate, as a means of mitigating the risk of financial loss from defaults. The Group only trans-

acts with entities that are rated the equivalent of investment grade and above. This information is supplied by independent rating agencies where available and, if not available, the Group uses other publicly available financial information and its own trading records to rate its major customers. The Group's exposure and the credit ratings of its counterparties are continuously monitored and the aggregate value of transactions concluded is spread amongst approved counterparties. Credit exposure is controlled by counterparty limits that are reviewed and approved by the risk management committee annually.

The Group does not have any significant credit risk exposure to any single counterparty or any group of counterparties having similar characteristics. The Group defines counterparties as having similar characteristics if they are related entities. Concentration of credit risk did not exceed 5 per cent of gross monetary assets at any time during the year. The credit risk on liquid funds is limited because the counterparties are banks with high credit-ratings assigned by international credit-rating agencies.

(ii) Currency risk

Currency risk is the risk that the financial results and cash flows of the Group will be adversely impacted by changes in exchange rates. Exchange fluctuations also affect the Group's net income and balance sheet in the following ways:

- Net income is affected when revenues and costs in foreign currencies are translated to Swedish kronor.
- The balance sheet is affected when assets and liabilities in foreign currencies are translated into Swedish kronor.

The absolute majority of the Group's revenues is denominated in Russian roubles. Consequently, the Group's net income may be negatively impacted by a depreciating rouble in relation to the Swedish krona.

If the Swedish krona had weakened / strengthened by 10 per cent in relation to the Russian rouble, all else being equal, the net income for the year ended December 31, 2008 would have been 10,762 KSEK higher / lower.

(iii) Liquidity risk

Liquidity risk is the risk that the Group will not be able to settle all liabilities as they fall due. The Group's liquidity position is carefully monitored and managed. The Group has in place a detailed budgeting and cash forecasting process to help ensure that it has adequate cash available to meet its payment obligations.

Management believes that this risk currently is not significant since the liquidity of the Group as of December 31, 2008 was strong and since further capital has been raised in March 2009 by the issue of a convertible loan.

*Note 26 continued**(iv) Interest rate risk*

Interest rate risk is the risk that changes in interest rates will adversely impact the financial results of the Group. Management believes that this risk is currently not significant because the Group does not have any significant external borrowings.

(v) Capital risk

The Group's objective with respect to capital risk is to secure its ability to continue its operations so that it can generate returns for the shareholders and value for other stakeholders, and maintain an optimal capital structure to keep the cost of capital down.

Since the Group has up to now mainly been required to focus on financing through issuing shares, no debt / equity ratio target has been established. This policy is revised on a regular basis as the business develops.

*(vi) Legal risk/ Regulatory risk**Russia*

The acquisition of land in general has up to now been a politically sensitive issue in Russia. In general, the situation in most Russian industrial sectors is such that ownership of land is never transferred – the State instead provides land usage rights, for example, for oil production or forest felling. Within the Russian agricultural sector, the law pre-

scribes, however, that land acquisition is permitted as long as the acquiring company does not have a majority of foreign owners. Alpcot Agro, as a foreign investor in Russia, take advantages of a legal structure which was developed by the Company's legal advisors and which is also customary in the market. It should be remembered, however, that the Russian legislators and / or politicians in general, if nationalist or protectionist tendencies take hold in the country, could decide to interpret the Russian legislation in another way. Such interpretation could have negative consequences for the Company.

Ukraine

In Ukraine, a moratorium on the acquisition of agricultural land has applied since the collapse of the Soviet Union. Current legislation only allow for the lease of land or for barter of similar land plots. Should the moratorium be lifted, the lessee will have pre-emptive acquisition rights. This applies both to national and foreign companies alike, and the route taken by the Company has to date been to take control of land through lease agreement. In the present political climate, it is uncertain whether the moratorium will be lifted in the foreseeable future, and even if it would be, it cannot be ruled out that there may be restrictions regarding foreign ownership of agricultural land.

Fair value of financial instruments

Fair value and carrying amounts are presented in the balance sheet below:

2008

Category	Loan and accounts receivables	Financial liabilities measured at amortised cost	Total carrying amount	Fair value
Assets				
Long-term receivables	299,604		299,604	299,604
Short-term loans	48,170		48,170	47,158
Accounts receivable	9,230		9,230	9,230
Cash and cash equivalents	105,620		105,620	105,620
Non-financial assets	82,426		82,426	82,426
Total assets	545,050	–	545,050	544,159
Liabilities				
Long-term liabilities		38,860	38,860	38,860
Short-term liabilities		18,136	18,136	17,933
Accounts payable		42,796	42,796	42,796
Other liabilities		6,042	6,042	6,042
Non-financial liabilities		6,762	6,762	6,762
Total liabilities	–	112,596	112,596	112,393

Note 26 continued

Fair value of financial instruments

Fair value and carrying amounts are presented in the balance sheet below:

2007

Category	Loan and accounts received	Financial assets held for sale	Financial liabilities measured at amortised cost	Other non-financial assets and liabilities	Total carrying amount	Fair value
Assets						
Long-term receivables	114,479	3,392			117,871	117,871
Short-term loans	11,293				11,293	10,355
Accounts receivable	7,260				7,260	7,260
Other receivables	360,000				360,000	360,000
Short-term investments	30,671				30,671	30,671
Cash and cash equivalents	186,593				186,593	186,593
Non-financial assets				4,542	4,542	4,542
Total assets	710,296	3,392	–	4,542	718,230	717,292
Liabilities						
Long-term liabilities			2,587		2,587	1,768
Short-term loans			567		567	458
Accounts payable			3,855		3,855	3,855
Other liabilities			5,276		5,276	5,276
Non-financial liabilities				33,302	33,302	33,302
Total liabilities	–	–	12,285	33,302	45,587	44,659

Measurement of fair value

The following summarises the main methods and assumptions used to establish fair value of the Group's financial instruments. Carrying amounts are essentially the same as fair value. For accounts receivable, accounts payable, other current receivables and liabilities that are measured at cost, the terms are short and fair value is therefore the same as the carrying amounts.

Long and short term loans matures between 2009 and 2014. The loans have interest rates between 8 and 15 per cent.

Long-term receivables are represented by advances paid for land acquisition & registration services by 289,238 KSEK (113,287) and loan receivables by 10,276 KSEK (652). The advances paid are of a long-term nature and it is not possible to exactly determine when they will be settled. The loan receivables mature between 2009 and 2011 and has an interest rate of 8 per cent.

Short-term loans mature in 2009 and have interest rates varying between 8 and 14 per cent.

Maturity structure of reported assets that have matured but not been written down

	2008	2007
< 30 days	7,537	385
30–60 days	5,180	904
61–90 days	36,064	939
91–120 days	16,249	1,296
> 120 days	1,549	6,075
Total	66,579	9,599

Change in doubtful receivables

Provisions for doubtful receivables	2008	2007
Opening balance, provisions for the year	228	–
Provision for anticipated losses	13,027	228
Closing balance, provisions for the year	13,255	228

NOTE 27 – EVENTS SUBSEQUENT TO THE BALANCE SHEET DATE

Acquisition of subsidiaries

In February 2009 a preliminary agreement has been entered into between Alpcot Agro AB and Alpcot Capital Management Ltd (ACM) whereby the management fee which is charged by ACM will be replaced by a lower annual fixed fee. The Board estimate that the new agreement will lead to cost savings by approximately 50 MSEK until 2014.

On March 31, 2009 Alpcot Agro AB completed an issue of a convertible loan which raised a total of approximately 65 MSEK, exclusive of transaction costs. The loan has a fixed interest rate of 10 per cent and matures on March 27, 2011. The holders of the convertible loan can call for conversion to new shares between February 20 and March 4, 2011 at a conversion rate of 16 Swedish kronor. Full conversion will lead to a dilution of approximately 13.8 per cent.

Parent Company income statement

SEK thousands	Note	1 Jan. 2008- 31 Dec. 2008	7 Sept. 2006 – 31 Dec. 2007
Operating income			
Net sales	12	8,000	4,216
		8,000	4,216
Operating costs			
Other external costs	1	–36,713	–9,845
Personnel costs	2	–7,119	–2,063
Depreciation and impairment of tangible fixed assets		–28	–8
		–43,860	–11,916
Operating profit		–35,860	–7,700
Profit and loss from financial investments			
Other interest income and similar items	3	54,048	8,274
		54,048	8,274
Profit after financial items		18,188	574
Tax	4	–	–
Profit for the year		18,188	574

Parent Company balance sheet

SEK thousands	Note	31 Dec. 2008	31 Dec. 2007
ASSETS			
Fixed assets			
<i>Tangible fixed assets</i>			
Equipments	5	125	60
		125	60
<i>Financial fixed assets</i>			
Participations in Group companies	6	680	51
Receivables from Group companies	7	1,260,118	308,485
		1,260,798	308,536
Total fixed assets		1,260,923	308,596
Current assets			
<i>Current receivables</i>			
Receivables from Group companies		362	404
Tax assets		–	50
<i>Other receivables</i>	8	1,597	393,580
Prepaid expenses and accrued income	9	13,155	6,098
		15,114	400,132
<i>Cash and bank balances</i>		85,239	145,457
Total current assets		100,354	545,589
TOTAL ASSETS		1,361,277	854,185

Parent Company balance sheet continued

SEK thousands	Note	31 Dec. 2008	31 Dec. 2007
SHAREHOLDERS' EQUITY AND LIABILITIES			
Shareholders' equity			
<i>Restricted equity</i>			
Share capital	10	146,904	76,204
		146,904	76,204
<i>Unrestricted equity</i>			
Not registered share issue		–	360,000
Other paid in capital		1,181,733	391,809
Retained earnings		10,533	7,243
Profit for the year		18,188	574
		1,210,094	759,626
Total shareholders' equity		1,356,998	835,830
Current liabilities			
Accounts payable		292	327
Other liabilities		387	58
Accrued expenses and deferred income	11	3,600	17,970
Total current liabilities		4,279	18,355
TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES		1,361,277	854,185
MEMORANDUM ITEMS			
Pledged assets		None	None
Contingent liabilities		None	None

Parent Company statement of changes in equity

	Share capital	New issue in progress	Share premium reserve	Distributable reserves	Total equity
Balance on 7 Sep. 2006	100				100
New share issued	76,104		391,809		467,913
New issue in progress		360,000			360,000
Reserve for fair value				5,243	5,243
Shareholder contribution				2,000	2,000
Profit for the year				574	574
Closing balance on 31 Dec. 2007	76,204	360,000	391,809	7,817	835,830
Registration of new issue in progress	30,000	-360,000	330,000		
New share issued	40,700		459,564		500,264
Reserve for fair value				2,716	2,716
Profit for the year				18,188	18,188
Closing balance on 31 Dec. 2008	146,904		1,181,373	28,721	1,356,998

Reserve for fair value refers in its entirety to changes in exchange rates on loans to subsidiaries.

Parent Company cash flow statement

SEK thousands	Note	1 Jan. 2008- 31 Dec. 2008	7 Sept. 2006 – 31 Dec. 2007
Operating activities			
Payments to suppliers and employees		–39,387	–29,469
Interest received etc.		28,270	8,274
Cash flow from operating activities		–11,117	–21,195
Investment activity			
Acquisition of equipment	5	–48	–68
Acquisition of Group companies	6	–25	–51
Loans provided during the year to Group companies	7	–892,130	–303,242
Cash flow from investment activities		–892,203	–303,361
Financing activity			
New share issued		866,338	500,768
New share issued costs		–23,236	–32,755
Shareholder contributions received		–	2,000
Cash flow from financing activities		843,102	470,013
Change in cash and cash equivalents		–60,218	145,457
Cash and cash equivalents at beginning of year		145,457	–
Cash and cash equivalents at end of year		85,239	145,457

Supplementary information

GENERAL INFORMATION

The Parent Company uses the same accounting principles as the Group except in cases where the Parent Company's ability to apply IFRS is limited by provisions in the Annual Accounts Act and in certain cases for tax reasons. In addition, the Swedish Financial Accounting Standards Council's recommendation RFR 2:1 Accounting for legal entities has been applied.

INFORMATION ABOUT INDIVIDUAL ITEMS

NOTE 1 – FEES AND COMPENSATION FOR EXPENSES

	2008	2006/2007
<i>Ernst & Young</i>		
Audit assignments	836	785
Other assignments	207	151
	1,043	936

Audit assignments involve examining the annual accounts and accounting records as well as those of the Company by the Board and the CEO, other tasks that are the responsibility of the Company's auditors in connection with providing advice or other assistance relating to observations made while auditing or the execution of other tasks of this nature. Everything else is categorised under "Other assignments".

NOTE 2 – PERSONNEL

Average number of employees

The average number of employees is based on paid hours worked in relation to normal working hours.

Average number of employees were 3.

Salaries, other remuneration etc.

Salaries, other remuneration, social security costs and pension costs were paid out in the following amounts.

	2008	2006/2007
<i>Board and CEO:</i>		
Salaries and other remuneration	2,323	1,374
Pension costs	450	181
<i>Other:</i>		
Salaries and other remuneration	2,373	–
Pension costs	233	–
	5,380	1,555
Social security costs	1,092	475
Total Board and other	5,380	1,555

	2008	2006/2007
<i>Gender distribution in management</i>		
Number of Board members, of which women	4 1	4 –
Number of senior executives incl. the CEO of which women	2 1	1 –
Pension obligations to the Board and CEO	255	225

Please also see Note 19 in the Group notes.

NOTE 3 – OTHER INTEREST INCOME AND SIMILAR ITEMS

	2008	2006/2007
Interest	12,325	7,999
Interest Group companies	27,000	–
Exchange differences	14,723	274
	54,048	8,274

NOTE 4 – TAX

	2008	2006/2007
Earnings before tax	18,188	574
Theoretical income tax, 28%	–5,093	–161
Non-deductible items	–28	–1,498
Tax losses for which deferred tax is not recognised	5,121	1,659
Reported tax	–	–

NOTE 5 – EQUIPMENT, FURNITURE AND FITTINGS

	31 Dec. 2008	31 Dec. 2007
Opening balance	68	–
Additions	93	68
Closing balance 31 December 2008	162	68
Opening balance	–8	–
Depreciation for the year	–28	–8
Closing balance 31 December 2008	–36	–8
Net book value	125	60

Depreciation according to plan is calculated based on a useful life of 5 years.

NOTE 6 – PARTICIPATIONS IN GROUP COMPANIES

Company	Reg. Office	Number of shares	Ownership interest, %	31 Dec. 2008	31 Dec. 2007
ARLF Agrocultura Limited	Cyperm	100	100	316	51
Larontas Ltd	Cyperm	100	100	25	–
Rusar Agro S.A.	Luxembourg	100	100	339	–
				680	51

For a complete list of companies in the Group, please refer to Note 18 in the consolidated financial statements.

NOTE 7 – RECEIVABLES FROM GROUP COMPANIES

	31 Dec. 2008	31 Dec. 2007
Opening balance	308,485	–
Additional	1,260,118	308,485
Re-paid loans	–308,485	–
Closing balance, amortised costs	1,260,118	308,485
Closing balance, carrying value	1,260,118	308,485

Receivables from Group companies relate to loans to Rusar Agro S.A., Luxembourg, Agrocultura Management LLC, Ukraine, and Larontas Ltd., Cyprus. The interest rate is fixed and is set to 3 per cent. In 2007 the loans related to the indirectly owned subsidiary in Russia and was Euro- and Ruble denominated. In 2008 the Company has changed the structure for lending to subsidiaries insofar that the previously Euro- and Ruble denominated loans are SEK-denominated. The loans have further been transferred to the wholly owned subsidiary in Luxembourg. The loan to the Ukrainian subsidiary is USD denominated.

NOTE 8 – OTHER RECEIVABLES

Category	31 Dec. 2008	31 Dec. 2007
Issue payment receivables	–	360,000
Deposits	–	30,671
External lending	1,000	2,500
Other receivables	597	409
	1,597	393,580

NOTE 9 – PREPAID EXPENSES AND ACCRUED INCOME

	31 Dec. 2008	31 Dec. 2007
Accrued consulting income	12,051	4,216
Accrued interest income	935	1,760
Other prepaid expenses and accrued income	169	122
	13,155	6,098

NOTE 10 – SHARE CAPITAL INFORMATION

	Number of shares	Quota value per share
Number/value at beginning of year	21,240,700	5
New share issue	8,140,000	5
Number/value at end of year	29,380,700	5

NOTE 11 – ACCRUED EXPENSES AND DEFERRED INCOME

	31 Dec. 2008	31 Dec. 2007
Accrued issue expenses	–	17 535
Accrued salaries and social security fees	2,468	135
Accrued audit fees	250	300
Other accrued expenses	882	–
	3,600	17,970

NOTE 12 – INTER-COMPANY SALES AND PURCHASES

100 per cent of the sales for the year pertain to sales to Group companies. No purchases have been made from Group companies during the year.

STATEMENT OF ASSURANCE

The Board of Directors and the CEO hereby provide an assurance that the consolidated accounts have been prepared in accordance with the International Financial Reporting Standards (IFRS) to the extent they have been adopted by the EU, and that the consolidated accounts provide a fair and true view of the Group's financial position and results. The annual accounts have been prepared in accordance with generally accepted accounting standards and provide a fair and true view of the Parent Company's financial position and results.

The report of the directors for the Group and the Parent Company provides a fair and true overview of the development of the Group's and the Parent Company's operations, financial position and results, and describes significant risks and uncertainties to which the Parent Company and the companies in the Group are exposed.

Stockholm, 23 April 2009

Alpcot Agro AB (publ)

Board of Directors

Joakim Ollén

Chairman of the Board

Sven Dahlin
Board member

Catharina Lagerstam
Board member

Otto Ramel
Board member

Björn Lindström
Chief Executive Officer

Our audit report was presented on 23 April 2009.

Ernst & Young AB

Per Hedström

Authorised public accountant

Audit report

To the annual general meeting of Alpcot Agro AB (publ)

Corporate identity number 556710-3915

We have audited the annual accounts, the consolidated accounts, the accounting records and the administration of the board of directors and the Chief Executive Officer of Alpcot Agro AB (publ) for the financial year 2008. The Annual Report and the Consolidated Financial Statement are included in this printed version on pages 20–56. The board of directors and the CEO are responsible for these accounts and the administration of the company as well as for the application of the Annual Accounts Act when preparing the annual accounts and the application of international financial reporting standards IFRSs as adopted by the EU and the Annual Accounts Act when preparing the consolidated accounts. Our responsibility is to express an opinion on the annual accounts, the consolidated accounts and the administration based on our audit.

We conducted our audit in accordance with generally accepted auditing standards in Sweden. Those standards require that we plan and perform the audit to obtain reasonable assurance that the annual accounts and the consolidated accounts are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the accounts. An audit also includes assessing the accounting principles used and their application by the board of directors and the CEO and significant estimates made by the board of directors and the CEO when preparing the annual accounts and consolidated accounts as well as evaluating the overall presentation of information in the annual accounts and the consolidated accounts. As a basis for our opinion concerning discharge from liability, we examined significant decisions, actions taken and circumstances of the company in order to be able to determine the liability, if any, to the company of any board member or the CEO. We also examined whether any board member or the CEO has, in any other way, acted in contravention of the Companies Act, the Annual Accounts Act or the Articles of Association. We believe that our audit provides a reasonable basis for our opinion set out below.

The annual accounts have been prepared in accordance with the Annual Accounts Act and give a true and fair view of the company's financial position and results of operations in accordance with generally accepted accounting principles in Sweden. The consolidated accounts have been prepared in accordance with the international financial reporting standards IFRSs as adopted by the EU and the Annual Accounts Act and give a true and fair view of the group's financial position and results of operations. The statutory administration report is consistent with the other parts of the annual accounts and the consolidated accounts.

We recommend to the annual general meeting of shareholders that the income statements and balance sheets of the parent company and the group be adopted, that the profit of the parent company be dealt with in accordance with the proposal in the administration report and that the members of the board of directors and the Chief Executive Officer be discharged from liability for the financial year.

Stockholm 23 April, 2009

Ernst & Young AB

Per Hedström
Authorised public accountant

Board of Directors and senior executives

BOARD OF DIRECTORS



Joakim Ollén

Chairman of the Board since 2006

Other positions:

- CEO and member of the board of Kunskaps-Porten AB
- Chairman of the board of Din Bostad Sverige AB
- Member of the board of S-Group Holding AB

Number of shares:

42,150 shares and 6,000 convertibles (with a nominal value of SEK 600,000)



Catharina Lagerstam

PhD – Board Director since 2008

Other positions:

- Member of the board of ElektronikGruppen BK AB
- Member of the board of Kommuninvest i Sverige AB
- Member of the board of Swedish Academy of Board Directors in Stockholm
- Member of the board of Franska Skolan Foundation

Number of shares: 2,000



Sven Dahlin

Board Director since 2006

Other positions:

- Partner and CEO at Leimdörfer
- Member of the board of Leimdörfer Fastighetsmarknad AB

Number of shares:

45,000 shares, 4,000 call options and 10,000 convertibles (with a nominal value of SEK 1,000,000)



Otto Ramel

Board Director since 2008

Other positions:

- Chairman of the Board of Länsförsäkringar Skåne

Number of shares: 3,000

SENIOR EXECUTIVES



Björn Lindström
*CEO of Alpcot Agro /
Investment Manager*
Number of shares:
953,200¹⁾



Vsevolod Ushakov
*General Director of
Management Company
Agrokultura*
Number of shares: 0



Katre Saard
Investment Manager
Number of shares:
323,200¹⁾



Alexey Mashchenkov
CFO of Alpcot Agro
Number of shares: 0



Peter Geijerman
Investment Manager
Number of shares:
218,000²⁾



Hannes Sjöblad
Investor Relations
Number of shares: 5,000
and 500 convertibles
(nominal value of
50 000 SEK)

1) Lindström and Saard are principal owners in other companies which in turns possess 148,100 shares and 47,500 convertibles (with a nominal value of SEK 4,750,000) in Alpcot Agro AB. Call options have been issued for 14,400 of the shares.

2) Geijerman has issued call options for 9,600 shares in Alpcot Agro AB

Definitions

Alpcot Agro

Alpcot Agro AB (publ), corporate registration number 556710-3915, subsidiaries included depending on the context

Alpcot Capital Management Ltd or ACM

Alpcot Capital Management Ltd is a wholly-owned subsidiary of Mustique Capital Holding S.A. and is authorised by the FSA in the UK

CIS states

The former Soviet Union excluding the Baltic States

Combine

Agricultural equipment used to harvest crops

Company

Alpcot Agro AB (publ), subsidiaries included depending on the context

Cultivator

Ground preparation equipment used to prepare fields for seeding

Economist Intelligence Unit

Part of the Economist Group providing, among other things, country-specific analysis and forecasts, see www.eiu.com

Fallow

Farmland that is not being cultivated

Grain

Generic term for wheat, barley, oats, rye, rye-wheat, durra, millet, maize and rice

Group

Alpcot Agro AB (publ), subsidiaries included depending on the context

International Monetary Fund (IMF)

International organisation that works to promote international monetary cooperation, see www.imf.org

Investment Manager

Alpcot Capital Management Ltd provides consulting and investment advice services to the Company under a management contract

Land in ownership

Registered Land and the indirect ownership of land through the holdings of Pais, which can be registered either in the Company's subsidiary's name or in the name of agents acquiring Pais on behalf of the Company within the framework of legally binding contracts

Land under control

Registered Land and land where the Company, either itself or in the name of agents, has registered a lease agreement or is in the process of registering a lease agreement with local authorities

Management agreement

The agreement between Alpcot Agro AB (publ) and the Investment Manager stipulating the investment manager's assignments, obligations and compensation

Parent Company

Alpcot Agro AB (publ)

Pai

Share in a jointly owned area of land obtained by farmers in connection with the privatisation of collective farms, which in most cases is between 4 and 20 hectares

Rosstat

Russian Federal State Statistics Service, see www.gks.ru

Sovekon

Russian statistics service within the agricultural sector, see www.sovecon.ru

Business and financial ratio definitions

Earnings per share

Earnings after taxes divided with the average number of shares during the year

Equity per share

Equity divided with the number of shares per closing day

Financial strength

Adjusted equity divided by total assets

Quick ratio

Current assets excluding inventory and biological assets divided by current liabilities



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