



# Interim Report

January – June 2007

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## Executive Summary

1H 2007 is the first reporting period for A/S Trigon Agri, following the group's listing on Stockholm First North on May 18, 2007. 2007 will also be the first full year of operations for the group after the initial establishment of its activities in May 2006. As of the end of the reporting period, the group was carrying out farming activities in three clusters of operations: (i) cereals production cluster in Harkov, Ukraine, (ii) milk production cluster nearby St Petersburg, Russia and (iii) milk production cluster in Estonia. As of the reporting date, the total land area controlled and farmed by the group stood at 26,815ha.

1H 2007 was the first operational season for A/S Trigon Agri in its cereals production cluster nearby Harkov city in Ukraine (population 1.5 million inhabitants). The focus during the period in the cluster stood at (i) implementing the investment program required for upgrading the farms to modern production standards and (ii) completing all field-works in order take in the first harvest of the group in Ukraine during 2007. The total area currently controlled by the cluster is 22,658ha.

The group commenced harvesting in Harkov cluster on July 5, 2007 and has by now completed harvesting works for wheat and barley. The results of the harvest for the year were significantly affected by the very dry summer throughout Ukraine. Over 95% of the fields of the group in Harkov region did not receive any rainfall during the vegetation period. Nevertheless, in fields where field-works were fully prepared by the group (i.e. where no crop in progress in the fields was acquired from previous owners), the group achieved 90% of its first year production target for wheat, 44% for barley and expects to harvest 104% of the production target for sunflower and 92% for corn. At the same time, on a few fields where there was at least minimal rainfall (35mm against the normal level of 200mm), the productivity was around 113% of the expected first year's production target. This gives significant confidence in the productivity potential of the area and shows that, subject to reasonable weather conditions, the productivity figures targeted by the group are set at conservative levels.

As part of the overall global trend, the cereals prices in Ukraine have seen a very significant price increase, with EXW elevator prices for all main crops gaining on average 50% during the reporting period. The price increase has been primarily driven by the global imbalances in the demand/supply equation, which will have a continued pressure on prices also during the future reporting periods. Such price increase more than offsets the dry weather caused losses in productivity.

On the investment program, the Harkov cluster has carried out the investments into farming equipment and production facilities in accordance with the planned schedule. The investment program was started in 2007 and will be completed in 2008. Given the progress and experience to date, the group expects the total investment per hectare to stay at the level which is approximately 10% lower than originally expected, nevertheless still achieving the same end-result. In addition, the group has been successful in acquiring the required storage space for its production areas. Two successful acquisition finalised over summer 2007, have

taken the grain storage elevator capacity in the Harkov cluster to 50,000 tonnes. The elevators acquired are both (i) strategically very well located in the middle of the cereals production fields of the company, (ii) connected to the Ukrainian railroad system by fully functional railroad links and (iii) carry full licences allowing for immediate start of the operations. The total acquisition price together with renovation investments paid by the group for the storage space stood at EUR 2,455 thousand. This is less than 20% of what the required replacement investment for the same storage space would have been, if the capacity had been built up as a green-field investment.

In the two milk production clusters, one nearby St Petersburg in Russia and one in Estonia, the group has been carrying out an extensive investment program in order to launch production in two brand-new dairy units for the total of 1,850 animals during 4Q 2007. All construction works have proceeded in accordance with plans and within original time-tables. Additionally, the good weather conditions have allowed to gather sufficient silage for the animals for the upcoming winter season. The new dairy units are scheduled for opening on December 1, 2007 and December 13, 2007 in Russia and Estonia respectively. Similarly to cereals prices, milk prices have seen a very dramatic increase across Europe due to the demand being at historically highest level for last several decades. A shortage of stocks in Europe have driven up the prices for milk powder in the EU, which has had a corresponding effect on milk price levels in the group's target countries of operation. As a result, based on ongoing discussions with purchasers of milk, the group is expecting a price increase for milk in its operating farms in Estonia of over 20% from 4Q 2007.

In regards to further expansion in Russia, the group has carried out significant preparatory works for establishing a new cluster nearby the city of Samara in Russia (population 1.1 million inhabitants), which will be focused on cereals production. The identified location is located in the Black Earth region and allows for building up a cereals production cluster of at least 50,000ha. The area is well covered by elevators, several of which are available for acquisitions and all of which are well connected to the Russian railroad network. The group has put in place a local team for operations in the area and has started the process of land acquisitions. The group also actively continues to work on pipeline opportunities to set up further clusters of operations in Russia. Further announcements will be published within due course.

In Ukraine, the group is continuously expanding its land area under control with a target of reaching around 30,000ha by the year-end. In parallel, it is carrying out active negotiations for acquisition of additional grain storage elevator storage space with an identified pipeline of over 10 rail-connected grain storage elevators.

Due to high prevailing market prices for cereals, the financial performance of the company for the reporting period has been better than previously expected. Revenue and other income for the group during the reporting period amounted to EUR 1,469 thousand. Net result from changes in fair value and inventories amounted to EUR 4,368 thousand. The operating profit of the group excluding overhead expenses, which have been built up keeping in mind the very significant expansion plans of the group, stood at EUR 667 thousand, whilst the respective figure after overheads amounted to EUR -46 thousand. The net result for the group for the reporting period stood at EUR -85 thousand.

Given the uncertainties involved in completing the harvesting and market conditions for selling the produce it is very difficult to give a clear expectation for the full financial year result. However, the group management is confident that the result will be significantly better than predicted during the share placement carried out in spring 2007. Under the best circumstances the company may reach a breakeven year excluding the potential additional expenses from upcoming acquisitions during the second half of 2007.

## **Comments on Financial Statements**

### **Accounting Principles**

As the Group was established in May 2006, there are no comparatives included in the Interim Report.

The principal financial statements presented in this interim report have been prepared using the IFRS accounting principles as described above. The presentation requirements of IAS 34 were not used. The group will prepare its annual report for 2007 in accordance with IFRS.

### **Accounting Specifics in Agriculture**

Due to the specifics of field production, the accounting for such activity consists of three main elements: costs, revenue and fair value gain. Costs in field production are recorded as they are incurred by the group i.e. on ongoing basis. The respective revenue generated from these costs, however, is firstly booked into fair value gain i.e. to reflect that the produce is growing in the fields. For booking such crop in progress, the management needs to make a judgement to determine (i) how much of crop is in the fields at the reporting date and (ii) what is the market value of such crop at the moment of the harvest. Secondly, when the produce is harvested it is booked into inventories at the fair market value at the moment of the harvest. Finally, when the produce is actually sold it is recorded in realised revenues at the final achieved sales value.

Such approach for accounting revenue, however, which is based on the requirements of the IFRS, implies that the net result of the group for each specific reporting period is influenced by the changes in the market prices for the crops during the recording periods and differences between realised harvests and management judgements.

For the group, this implies that due to the specifics of the production cycle, major part of the fair value gain for fields production has been recorded during the first half of the financial year and during the second half of the financial year the fair value gain is only realised from additional crop growth in sunflower and corn. Once the crop is sold in the next reporting periods, the revenue is recognised and the fair value gain respectively reduced.

In milk production the produce is defined in clear quantity at the moment of production and sold shortly after, implying that revenues and costs are mostly aligned in the income statements.

### **Financial Results**

#### **Revenue and other income**

The company's revenue and other income for the reporting period in the amount of EUR 1,469 thousand was generated mainly from sales of milk and meat. No revenue was booked from sales of cereals.

#### **Gains in fair value of agricultural produce and biological assets**

Total gains in fair value and biological assets amounted to EUR 4,972 thousand. Significant majority of these gains was related to cereals production in the Harkov region in Ukraine. For the purposes of determining the value of these gains, the actual result of production was used for wheat and barley and a management judgement was used for estimating the crop size for sunflower and corn. The prices used in the calculations are depicted in the table on the next page in the left hand column and for comparison the latest market prices prevailing in Ukraine and given in the right hand column.

	Prices used for reporting period Income Statement	Prevailing market prices as of August 10, 2007
Ukraine	EUR/tonnes	EUR/tonnes*
Wheat	129	150
Barley	129	137
Sunflower	183	273
Corn	107	128

\*Source: APK Inform

### Changes in inventories of finished goods and work in progress

Total changes in inventories of finished goods and work in progress for the reporting period amounted to EUR –604 thousand.

### Operating expenses

Operating expenses (including amortization and depreciation) for the reporting period amounted to EUR –6,111 thousand.

### Other losses/gains

The net result from other losses/gains for the reporting period stood at EUR 228 thousand. The figure includes losses/gains from foreign exchange and other financial losses/income, excluding interest on bank loans and leases.

### Operating result

Operating result for the reporting period amounted to EUR –46 thousand.

### Finance costs

Finance costs for the reporting period amounted to EUR –39 thousand. The finance costs include interest expenses from bank financing in the Estonian dairy farms. No bank financing is currently used by the group in its operations in Ukraine and Russia.

### Net profit

Net profit for the reporting period amounted to EUR –85 thousand.

### Personnel

As of the end of the reporting period, the group employed a total of 707 employees, including 611 in Ukraine, 78 in Estonia and 18 in Russia.

### Outstanding shares

The total number of outstanding shares at the close of the reporting period stood at 59,627,479. The average number of outstanding shares for the reporting period was 20,251,743.

## Harvesting and Events After the Close of the Period

### Crop plan 2007/2008

The table below shows the crop plan of the group for its Harkov cluster of cereals production in Ukraine:

	2007	2008
Wheat	32%	34%
Barley	21%	18%
Sunflower	13%	14%
Corn	13%	15%
Other	21%	19%
<i>Total</i>	<i>100%</i>	<i>100%</i>

### Harvesting 2007

At the time of the current report, more than half of the crops (primarily wheat and barley) were harvested in the group's Harkov cluster in Ukraine. The harvest was the first harvest in the history of the group in its Ukrainian operations. The table below depicts achieved and expected results by each of the main four crops, showing a break-down between fields which were fully prepared by the group and fields in which existing crop in progress was acquired from former owners.

Crop yields 2007, tonnes/hectare								
	Fields fully prepared by A/S Trigon Agri		Fields acquired with existing crop in progress		Weighted average		Fields which received 35mm rainfall	
	Yield per hectare	Hectares	Yield per hectare	Hectares	Yield per hectare	Hectares	Yield per hectare	Hectares
Wheat	3.59	934	2.86	6,278	2.95	7,212	4.51	615
Barley	1.57	1,335	1.39	3,315	1.44	4,650	N/A	0
Sunflower*	2.08	821	1.88	2,115	1.94	2,937	N/A	0
Corn*	4.61	696	4.37	2,188	4.43	2,883	N/A	0

\*Expected productivity, crops will be harvested in September

Please note that the yields for sunflower and corn are indicative and may be subject to change according to weather conditions.

### Events After the Close of the Period

As of August 2, 2007, A/S Trigon Agri completed the acquisition of its second grain storage elevator in the Harkov region in Ukraine. The elevator was acquired by the Ukrainian holding company of A/S Trigon Agri by purchasing 100% of shares of OOO Vovchanskiy Kombinat Khliboproduktiv, a Ukrainian limited liability company, which operates the elevator complex in the Harkov region. OOO Vovchanskiy Kombinat Khliboproduktiv had no significant liabilities as of the date of the acquisition.



Vovchanskiy Grain Storage Elevator in Ukraine

## **Future Reporting Dates**

Annual report 2007

31 March 2008

This Interim Report has not been the subject of examination by the company's auditor.

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## Balance sheet

(in thousands Euros)

30.06.2007

### ASSETS

#### Current assets

Cash and cash equivalents	47,826
Receivables and prepayments	3,571
Inventories	932
Biological assets	6,838
	<u>59,167</u>

#### Non-current assets

Long-term prepaid rents	2,171
Available-for-sale financial assets	13
Property, plant and equipment	9,804
	<u>11,988</u>
<b>Total assets</b>	<u>71,155</u>

### LIABILITIES

#### Current liabilities

Trade and other payables	2,397
Borrowings	172
Provisions for other liabilities and charges	273
	<u>2,842</u>

#### Non-current liabilities

Trade and other payables	97
Borrowings	1,398
Provisions for other liabilities and charges	64
Deferred income from EU subsidies	530
	<u>2,089</u>
<b>Total liabilities</b>	<u>4,931</u>

### EQUITY

#### Capital and reserves attributable to equity holders of the Company

Ordinary shares	67,035
Other reserves	-167
Retained earnings	-676
	<u>66,192</u>

#### Minority interest in equity

	<u>32</u>
<b>Total equity</b>	<u>66,224</u>
<b>Total equity and liabilities</b>	<u>71,155</u>

## Income Statement

(in thousands Euros)

### Consolidated income statement – by nature of expense

	01.01.2007 - 30.06.2007
Revenue	1,113
Other income	356
Fair value of agricultural produce produced	66
Gain arising from changes in fair value less estimated point-of-sale costs of biological assets	4,906
Changes in inventories of finished goods and work in progress	-604
Raw materials and consumables used	-3,717
Employee benefits expense	-951
Depreciation, amortisation	-224
Other (losses)/gains \ net	228
Other expenses	-1,219
<b>Operating profit</b>	<b>-46</b>
Finance costs	-39
<b>Profit before income tax</b>	<b>-85</b>
<b>Profit for the period</b>	<b>-85</b>
<b>Attributable to:</b>	
Equity holders of the Company	-90
Minority interest	5
	<b>-85</b>
Earnings per ordinary share (loss)	0



## Statement of changes in equity

(in thousands Euros)

	Attributable to equity holders of the Company					
	Share capital	Share premium	Other reserves	Retained earnings	Total	Minority interest
<b>Balance at 4 May 2006</b>	26	-	-	-	26	-
Issue of share capital	947	-	-	-	947	-
Issue of subordinated loan-notes	-	-	11,399	-	11,399	-
<b>Total contributions by owners</b>	<b>973</b>	<b>-</b>	<b>11,399</b>	<b>-</b>	<b>12,372</b>	<b>-</b>
Minority interest arising on business combinations	-	-	-	-	-	11
<b>Net income recognised directly in equity</b>						
Currency translation differences	-	-	4	-	4	-
<b>Total net income recognised directly in equity</b>	<b>-</b>	<b>-</b>	<b>4</b>	<b>-</b>	<b>4</b>	<b>-</b>
Loss for the year	-	-	-	-586	-586	16
<b>Total recognised income and expense for the year</b>	<b>-</b>	<b>-</b>	<b>4</b>	<b>-586</b>	<b>-582</b>	<b>16</b>
<b>Balance at 31 December 2006</b>	<b>973</b>	<b>-</b>	<b>11,403</b>	<b>-586</b>	<b>11,790</b>	<b>27</b>
Issue of share capital	47,255	7,408	-	-	54,663	-
Reclassification of subordinated loan-notes	11,399	-	-11,399	-	-	-
<b>Total contributions by owners</b>	<b>58,654</b>	<b>7,408</b>	<b>-11,399</b>	<b>-</b>	<b>54,663</b>	<b>-</b>
<b>Net income recognised directly in equity</b>						
Currency translation differences	-	-	-171	-	-171	-
<b>Total net income recognised directly in equity</b>	<b>-</b>	<b>-</b>	<b>-171</b>	<b>-</b>	<b>-171</b>	<b>-</b>
Loss for the period	-	-	-	-90	-90	5
<b>Total recognised income and expense for the period</b>	<b>-</b>	<b>-</b>	<b>-171</b>	<b>-90</b>	<b>-261</b>	<b>5</b>
<b>Balance at 30 June 2007</b>	<b>59,627</b>	<b>7,408</b>	<b>-167</b>	<b>-676</b>	<b>66,192</b>	<b>32</b>

Share capital in amount of EUR 59,627 thousand consists of 59,627 shares in nominal value 1 EUR per share. Share premium in amount of EUR 7,408 thousand consists of paid in share premium in amount of EUR 10,000 thousand minus expenses related to the new share issue in amount of EUR 2,592 thousand.

## Cash flow statement

(in thousands Euros)

01.01.2007-  
30.06.2007

### Cash flows from operating activities

Cash receipts from customers	1,261
Prepayments returned	1,419
Cash paid to suppliers and employees	-5,751
Cash generated from operations	-3,071
Interest paid	-45
<b>Net cash from operating activities</b>	<b>-3,116</b>

### Cash flows from investing activities

Acquisition of subsidiary, net of cash acquired	12
Purchase of biological assets	-454
Purchase of property, plant and equipment	-6,133
Proceeds from sale of equipment	2
Interest received	244
<b>Net cash used in investing activities</b>	<b>-6,329</b>

### Cash flows from financing activities

Proceeds from issue of share capital	54,637
Subsidies received	468
Payments of finance lease liabilities	-79
<b>Net cash used in financing activities</b>	<b>55,026</b>

Net increase in cash and cash equivalents	45,581
Effects of exchange rate changes on cash and cash equivalents	-113
Cash and cash equivalents at beginning of period	2,358
Cash and cash equivalents at end of period	47,826