

A/S Trigon Agri: Makes a 71 thousand hectares land-swap in Russia

A/S Trigon Agri announces that it has expanded its earlier announced land-swap transaction in Russia to involve the acquisition of 71 thousand hectares production cluster in Rostov Oblast, compared to previously announced 30 thousand hectares. The payment will be in the form of shares in the Group's two existing production clusters in Samara and Stavropol and a monetary payment of EUR 15.1 million.

"The new production cluster acquired in Rostov Oblast has exceptional characteristics due to four strong competitive advantages: location near the main export ports, regionally speaking good historical rainfall, contiguous layout of the land and last but certainly not least potentially very significant irrigation potential. These four factors together allow the new Rostov production cluster to offer a much higher potential to show consistent profits than the land areas Trigon Agri has swapped out of, says Joakim Helenius, Chairman of Trigon Agri.

- The transaction is structured as a share exchange deal whereby Trigon Agri acquires 100% ownership of a legal entity having a freehold title to 71 thousand hectares.
- The payment for the shares of the acquired entity will be effected in the form of shares in the Group's two existing production clusters in Samara (45 thousand hectares of farm-land in ownership) and Stavropol (33 thousand hectares of farm-land in ownership) and a monetary payment of EUR 15.1 million.
- Out of the monetary payment of EUR 15.1 million, Trigon Agri has paid EUR 6 million in the form of prepayment as of end of Q3 2012. In accordance with the signed acquisition agreement, the remaining EUR 9.1 million will be paid in Q4 2013 in the form of a delayed cash payment (no interest to be accrued on the delayed amount).
- As part of the transaction the seller of the Rostov assets will also take over EUR 6.4 million of bank borrowings of the Stavropol cluster, while the Rostov land holdings will be passed on to Trigon Agri as free of any bank debt.
- As Trigon Agri is free to take on loans against the new Rostov cluster and the swap removes EUR 6.4 million of bank debt from Trigon Agri's balance sheet (and Trigon Agri saves about EUR 1 million in interest payments which would otherwise have accrued on the Stavropol loan over 2013) the transaction will not significantly affect Trigon Agri's liquidity position.
- The divestment of the Samara and Stavropol clusters is expected to result in one-off income for Trigon Agri in the size of around EUR 20 million in Q4 2012. The transaction will lead to a significant net profit for the full year 2012 which in turn will lead to a substantial increase in year-end book value of equity.
- Accordingly the need to effect payment for the swap partly through issuing new shares, which has been mentioned in previous stock exchange releases, is no longer necessary and will not be carried out.
- As part of the transaction Trigon Agri will take over 17 thousand hectares of 2013 winter wheat crop seeded in the Rostov cluster under the supervision of Trigon Agri's agronomy team. The fieldworks carried out to date in the Stavropol and Samara clusters will pass on to the sellers of the Rostov cluster. No field equipment is part of the agreed land-swap transaction.
- The Samara and Stavropol assets contributed by Trigon Agri into the swap transaction had an acquisition cost value in Trigon Agri's balance sheet of EUR 29.2 million (net of EUR 6.4 million of borrowings). The 9m 2012 EBITDA of the Samara and Stavropol operations showed a negative result of EUR 4.2 million.
- The transaction is subject to the approval of the Russian Competition Authority currently expected in December 2012.

Background

The newly acquired Rostov production cluster is located in the neighborhood of the Novorossiysk port. Novorossiysk port is the main export hub for grain from Russia. The proximity to this port allows for higher than average prices on the sale of grain, as domestic farm-gate grain prices in Russia tend to fall as the distance to the main ports increases. The very long distance to the Black Sea ports from the Samara region proved to be a major handicap for Trigon Agri's operations in that region.

The ten-year average rainfall of the new Rostov cluster production areas stands at 485 millimeters per year, compared to 374 millimeters per year in the Stavropol production cluster.

The land area of the acquired production cluster is laid out as two large contiguous blocks of around 20 by 20 kilometres each. The contiguous nature of the fields allows for the land to be farmed at low costs per hectare, as field equipment does not need to travel long distances to move from one field to another, and can therefore be deployed in the most efficient way possible during the seeding, spraying and harvesting windows. This results in a low cost per tonne produced and allows for high profit margins everything else being equal.

The land acquired in the new production cluster is connected to an irrigation canal system that is unique in the region. This system provides the option to develop irrigated farming in the area. Applying irrigated farming could potentially more than double longer term average production yields achieved for each hectare under production as well as removing most of the weather related risk.

In addition to the four characteristics described above, which together provide the basis for potentially good profitability going forwards, the production cluster acquired also has farm-based grain storage warehouses with a total storage capacity of 35,000

tonnes of grains. Having the security of storage is vital for successful farming operations in Russia, as there is a general lack of storage capacity in the country. Local farmers without their own storage are often forced to sell their produce into a cyclically weak pricing environment during the harvesting season.

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About Trigon Agri

Trigon Agri is a leading integrated soft commodities production, storage and trading company with operations in Ukraine, Russia and Estonia. Trigon Agri's shares are traded on the main market of NASDAQ OMX Stockholm. Trigon Agri is managed under a management agreement by Trigon Capital, a leading Central and Eastern European operational management firm with around USD 1 billion of assets under management.

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