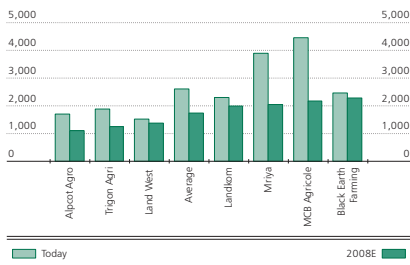
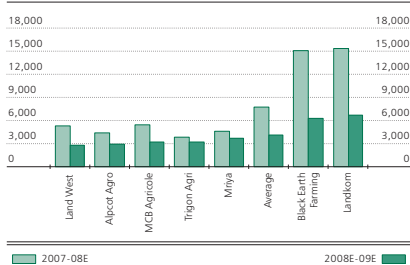
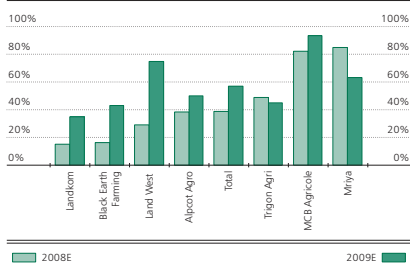


EV/ ha of land bank


Source: Companies, Troika Dialog estimates

EV/ ha of land farmed


Source: Companies, Troika Dialog estimates

Proportion of land bank farmed


Source: Companies, Troika Dialog estimates

CIS Agriculture: View from the Fields

- Conference review.** At end June, we held a CIS agriculture day in London, at which 15 of the leading agriculture companies in the CIS met with a wide range of investors. We summarize below some of the main points for those investors who were unable to attend.
- There is a land grab going on.** With prices rising fast and a belief that now is the time to seize the opportunity, companies are building up land banks as rapidly as their capital will allow. The land companies in our sample are planning to increase their land banks by 72% in 2008 and a further 32% in 2009 to a total of 2.1 mln ha, which is equivalent to more than a third of the entire arable land in the UK, for example.
- Expect a bumper harvest.** We anticipate a harvest of 85-90 mln tonnes of cereals in Russia this year and nearly 50 mln tonnes in Ukraine. Such volumes are likely to swamp export capacity, driving up the returns for logistics and meat companies and keeping domestic prices low.
- Integrated companies are booming.** Companies combining land with processing and logistics are enjoying an extremely favorable environment, with growth rates of 20-30%, high cash generation and high margins. Of the listed companies, we continue to favor Cherkizovo Group, Razgulay Group, Kernel and Astarta Holding, as well as Myronivsky Hliboproduct for those able to tolerate the subsidy risks.
- Major new companies are intending to list.** Aston, Agrico and other Russian companies with potential revenues over \$1 bln intend to come to the market in 2009-10. These are successful integrated companies, combining major land banks with processing and logistics operations and generating very attractive levels of profitability. Assuming that they provide sufficient free float, we would expect them to give the sector the size and liquidity it requires to stand out.
- Land companies are struggling to digest their assets.** Land companies continue to face difficulties in converting their huge land banks into farmed land, with capex and opex overruns, pressure on selling prices and interference from local government, and we calculate that they will only harvest 39% of their land banks this year. Meanwhile, integrated companies said that they have been rationalizing and reducing the size of their land banks, and cast some doubt on the validity of the land-bank model.
- Land value creation is largely in the price.** Land companies are trading at an average 2008E EV/ha of land bank of \$1,700/ha. On the basis of the more stringent EV/ha of land to be farmed in 2008-09, they trade at an average of \$4,100/ha. Both of these numbers are within our rough fair value range despite the fact that the companies are still not making money and the numbers are very rough, implying a lack of fundamental upside for the more expensive players. For investors still anxious to play this story, we recommend buying into the cheaper players. Among these, Alpcot Agro offers Russian exposure, Trigon Agri offers liquidity, and Mriya offers local expertise with adequate cash.

Kingsmill Bond, CFA Chief Strategist
Kingsmill_Bond@troika.ru
+44 (207) 583 3257

Andrey Kuznetsov Strategist
Andrey_Kuznetsov@troika.ru
+7 (495) 933 9844

Tigran Hovhannissyan Senior Analyst
Tigran_Hovhannissyan@troika.ru
+7 (495) 933 9859

Mikhail Krasnoperov Analyst
Mikhail_Krasnoperov@troika.ru
+7 (495) 933 9838

Alexander Tsependa Analyst
Alexander_Tsependa@troika.ru
+38 (044) 207 3780

General Points

The nature of the space

- **A mighty cast of characters.** The opportunity of CIS land has drawn in a remarkable group of charismatic and colorful entrepreneurs, from shipping magnates to grain traders, from Swedish financiers to English warriors.
- **A land grab.** The very first speaker of the day, Sevki Acuner of the EBRD, made clear the nature of what is going on in the region, when he described it as a one-off opportunity to build up large land positions. The nine land companies in our sample had 930 mln ha under control at end 2007, and intend to have 1,600 mln ha at end 2008 and 2,100 mln ha by end 2009.
- **Expect a bumper harvest.** Early indications from Southern Russia are that this will be a bumper harvest with yields 20-30% higher than those last year. We anticipate a cereals harvest of 85-90 mln tonnes in Russia and 48 mln tonnes in Ukraine. This would imply exports of around 25 mln tonnes for each country, swamping the Ukrainian export capacity which is only 1.5 mln tonnes per month. The implication of this is that logistics and processing companies will do well, as will meat companies, which purchase the cereals. However, domestic producers of grain, especially in Ukraine, are likely to find that prices locally are lower than the international ones.
- **Good land is no longer cheap.** Companies from Agrico to Kernel said that the best quality land is no longer available, and others mentioned that there is now increasing competition to buy land. Investors should not imagine, therefore, that companies are able to pick up assets for a song, and should be concerned about the quality of the land that is being bought.
- **Returns go to infrastructure companies.** Integrated companies said that they are making the highest profitability when they both farm the land and then process and sell the resulting product. For example, Kernel said that it makes a much higher EBITDA margin from their farming divisions than from pure processing. In contrast, the land companies are still struggling to make money even in an environment of high prices.
- **Bigger fish are on their way.** In the same way as in the property sector, it was the swift and not the large companies that were first to market, and there are some major companies likely to list over the course of the next 12 months. Euroservice, Aston and Agrico are all companies with revenues of over \$1 bln and EBITDA of over \$100 mln, and are likely to command high market caps. This implies that the relative attractiveness of Black Earth Farming and Landkom, currently the only two traded land companies in the space, will probably fall over time.
- **Land costs are the tip of the iceberg.** It was made extremely clear that the cost of land is only the starting point for companies, and that the majority of the costs involved come afterwards. For example, Alpcot Agro said that its expenditures on land were \$30 mln, and would be followed by spending on machinery of \$50 mln, working capital of \$15 mln and storage of \$35 mln.
- **High yields are unlikely in the long term.** A number of the integrated companies working in the region argued that yields of over 5 tonnes/ha would be extremely hard to achieve on a consistent basis. This is an especially important point for the more high-cost Swedish land companies, the high projected future profitability of which is entirely dependent upon obtaining higher yields. If average yields fail to exceed at 5 tonnes/ha, then these companies will look far less robust.

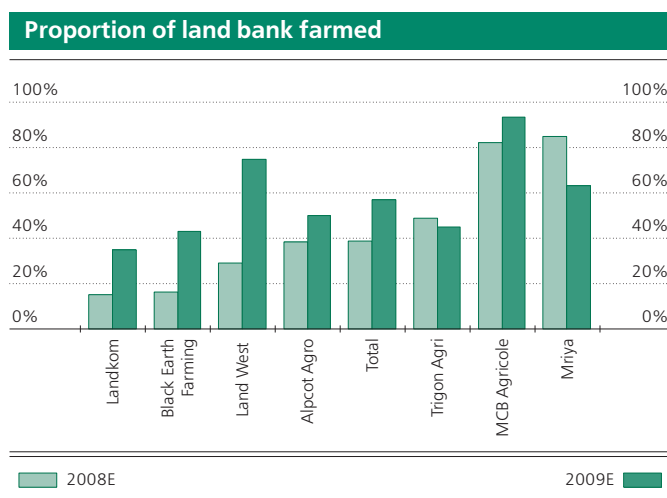
- **Beware of inflated claims.** Almost every land company claims to have a target land bank size of around 500,000 ha at some stage in the next five years. In the same way as each of the contestants wants to win Wimbledon, this is a welcome aspiration, but few will achieve it. Taking a rule of thumb of \$3,000/ha in capital costs required to purchase land and bring it into production, any company wishing to build up this kind of land bank will need \$1.5 bln of capital.
- **A tough environment.** It was made ever clearer what a tough environment companies are having to operate in as a result of years of underinvestment and the lack of a deep market economy. In the West, farmers are able to enjoy government support and networks, reasonable prices for logistics and processing services and a nearby market. In the CIS, the infrastructure is so weak that companies are obliged to construct their own infrastructure at a considerable expense in order to have the variable cost and the quality that they require.
- **Brace yourself for disappointments.** It is the nature of agriculture to be at the mercy of the elements. To this, investors need to add the fact that many companies are struggling to control the land they have and to farm it efficiently as they have made huge land grabs. Integrated companies like Agrico said that they have in fact been reducing the size of their land banks so as to rationalize it and cut out the weaker areas. We expect that many of the operational aspects of the land companies will continue to disappoint this year.
- **Land claims do not equate to ownership.** The principal metric used by the market at present is to look at land forecast to be under control at year end. This is an extremely weak metric for a number of reasons. The first is that it is an aspiration rather than an audited number. So a company may aspire to having 100,000 ha, but actually only have 50,000 ha. The second is that land under control does not actually mean land from which companies own the rights to future cash flows. The owner of the land may refuse to register title, and there were a number of companies stating at the conference that the process of registration is more than a formality and that companies may face difficulties in obtaining it.
- **Numbers are still weak.** We still struggle to obtain hard comparable data across the asset class on per-hectare yields and costs, per-tonne sales values and land owned and farmed. However, the glory of the market is that we are likely to receive significantly clearer numbers on all these issues over the course of the year, and winners will emerge.
- **Rights to lease land in Ukraine only have value if the legal paperwork is watertight.** Investors in Ukraine are not buying land, rather they are buying companies that have the right to lease that land and then buy it as and when legislation so allows. The assumption is that the right to buy is likely within the next few years, so the majority of the value lies in the purchase rights. If the investor has the right to purchase at the then market value, then the only upside is the difference between what the market is prepared to pay for land and the market value in Ukraine; in economic theory, there should be no difference. So the key hope is that the investor will be able to pay less than market value on acquisition, and this will depend on the legal paperwork in each case.
- **The principal cost advantage for land companies may be scale.** It is widely argued that there are major cost advantages of labor, fuel and fertilizer for farms in the CIS, though there is as yet limited hard proof that the region is indeed a low-cost producer. However, a very interesting argument was advanced by Agrico, which said that the primary competitive advantage of the region was having large contiguous land banks. The impact of this is to reduce overhead, and they argued that a 40,000 ha farm would have 25% lower running costs than four 10,000 ha farms, simply because of the elimination of overhead and other

waste. The implication is that the winners in the game will not be those companies with large areas of land all over the place but with contiguous plots.

- **Selling prices are key.** There is a wide range of prices at which crops are sold, dependent on whether companies have the necessary infrastructure (such as silos and transport), how close they are to export markets, and whether they have the necessary export contacts.

Key differentiating factors

- **Nature of the company.** There are really three different types of company: land banks, which are seeking to leverage the rising price of land; farmers seeking to make money from farming; and integrated players.
- **Land bank or farmer.** At present, all of the land companies argue that they are farmers, but if we look at the percentage of land farmed, it ranges from 15% to 90%, and we would suggest that those companies for which it is under 50% should better be seen as land banks. It is hard to say which investment is likely to be more successful (it makes a lot of sense to buy low and sell high if you can), but when it comes to the business model, we prefer those companies that are farmers, as they are more likely to be able to hold on to their land. Interestingly, the two most liquid companies in the space at present – Landkom and Black Earth Farming – should be seen as land banks more than as farming companies.

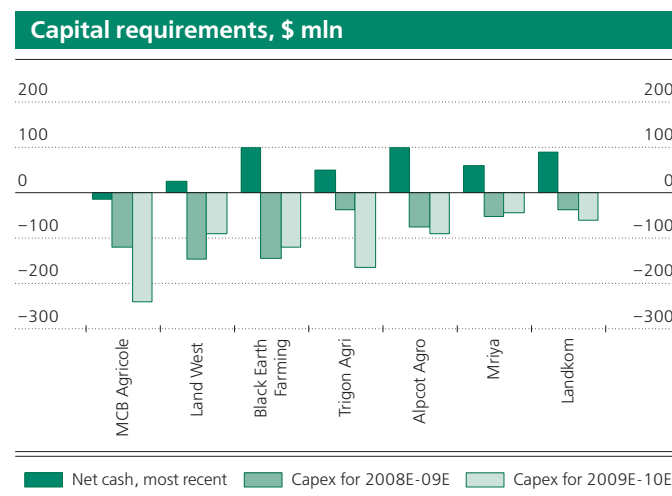


Source: Companies, Troika Dialog estimates

- **Size.** The integrated players are an order of magnitude larger than the start-up land companies. For example, Euroservice, an unlisted integrated company, is likely to have revenues of over \$1.5 bln this year, compared with around \$50 mln for the land companies.
- **Russia versus Ukraine.** As we have previously argued, there is a major difference between the two countries. While some investors have tended to prefer Ukraine for the higher yields, we prefer Russia for the superior legal land-ownership environment and better macroeconomic framework, which imply lower discount rates and lower risks.
- **Distance from ports.** Transport costs are rising, and the further a company is from the port, the lower the price it is likely to get for its cereals. For example, companies located in the central region of Russia are in a weaker position than those in the south of the country, and companies in the south of Ukraine are in a weaker position than those in the east. Landkom, for example,

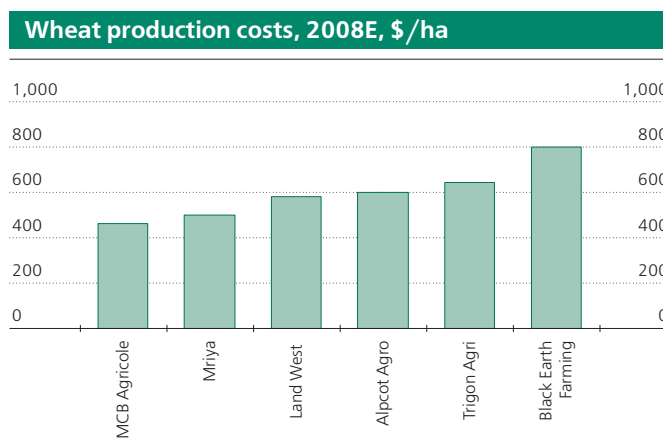
sold its grain at only \$215/tonne and Black Earth Farming at \$217/tonne at a time when international prices were significantly higher.

- **Key product.** By and large, the land companies have a similar strategy that focuses mainly on cereals, with some oilseeds. There are five main types of product to distinguish the integrated companies. Oilseed is the most attractive, as it is both an export commodity and likely to command higher prices, according to the Food and Agriculture Organization (FAO). Next comes cereals, also potentially an export commodity, and where the region is potentially one of the lowest-cost producers in the world. Meat and vegetables are both areas where companies should, in theory, be successful, as they should be able to leverage low domestic costs to substitute imports. Sugar is theoretically the least attractive area, as it seems to require high tariff barriers to prosper; however, this may be changing, as was argued by Astarta Holding.
- **Local or foreign.** The argument made by many of the local companies at the conference was that they had significant advantages over foreign companies as a result of their ability to have better relations with the regional authorities and a stronger ability to source cheap land plots. From the unaudited numbers that were quoted, it would certainly appear that local companies such as MCB Agricole have lower production costs (quoted at under \$500/ha) versus, say, Black Earth Farming (closer to \$800/ha). On the other hand, foreign companies tend to argue that they have superior corporate governance and transparency, though in most cases, you pay for this through management incentive schemes. We suspect that both groups of companies have similar access to international expertise and machinery. Given that it has been locals that have succeeded in other areas in the CIS, we would tend to favor local companies, especially if they are able to sort out transparency issues.
- **Capital requirement.** Most companies in the space have large requirements for foreign capital and cash levels sufficient to develop only a small proportion of this, taking a standard assumption of \$1,500/ha of new land to be farmed in 2008-09 and \$2,000/ha for 2009-10. Landkom, Mriya and Alpcot Agro are unusual in that they appear to have sufficient resources to finance their expansion; the same cannot be said of the other companies, with MCB Agricole and Land West in particular needing very large amounts of capital if they are to achieve their expansion goals.



Source: Companies, Troika Dialog estimates

- Cost structure.** The space is still young, and we are concerned about different ways in which costs are calculated, so the numbers should be treated with some caution. However, we have rough estimates for the cost of producing wheat in 2008. The rule of thumb appears to be that the variable operating costs are in the region of \$500/ha and the fixed costs are around \$200/ha, making the total cost \$700/ha.

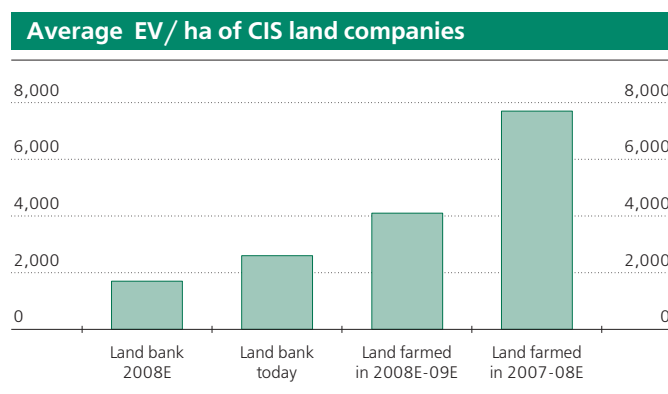


Source: Companies, Troika Dialog estimates

How to value land companies

THE BIG PICTURE

In the absence of a clear profit stream, the value of land companies is usually expressed in terms of EV/ha. The problem is which land to look at, and investors have to make two main choices: land today or land at year end; and land farmed or land allegedly under control. The averages of these four numbers for the listed land companies vary widely.



Source: Companies, Troika Dialog estimates

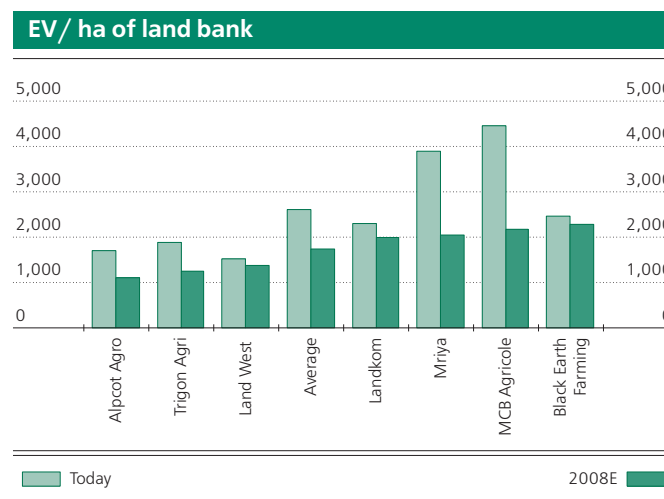
The value per land bank corresponds to our blue sky valuation put forward in our June *Strategy Monthly* piece "Agriculture in the CIS: The New Frontier", where we argued that virgin land capable of generating profits of, say, \$400/ha and with a cap rate of 15 (both pretty aggressive assumptions) was worth a maximum of \$2,100/ha. The average traded price is \$2,600/ha today and \$1,700/ha at year end, implying that there is not a lot of fundamental upside.

However, we believe that EV/land bank is a pretty weak metric, as it is based on unaudited numbers and does not take into account capital costs to get the land working. We believe that a more realistic tool would be to look at land farmed, and, in order to maintain a forward looking element, we would take land to be farmed in the 2008-09 agricultural year and a forward assumption of EV.

The per-hectare value of land farmed corresponds to our blue sky valuation for a working owned farm, where our valuation implied a level of around \$6,000/ha based on similar assumptions. The average traded price today is \$7,700/ha farmed in 2007-08E and \$4,100/ha to be farmed in 2008E-09E. The upside here is higher, but still not dramatic.

COMPANIES COMPARED ON EV/LAND UNDER CONTROL

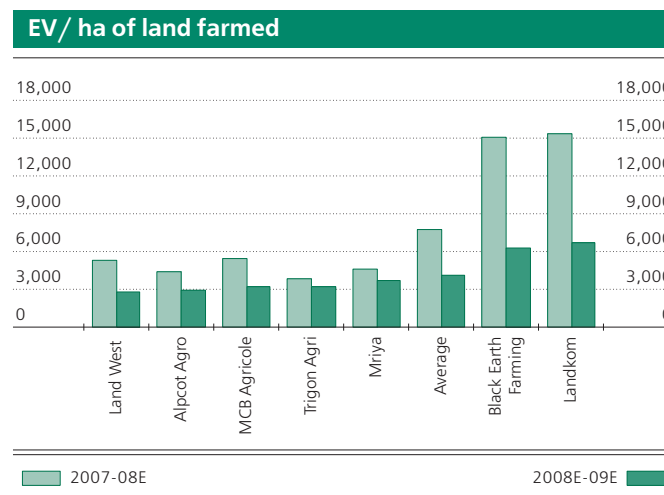
The market seems to be focused on 2008E numbers, as the valuation range is narrower and the most liquid companies such as Black Earth Farming cost more than the least liquid, which is Alpcot Agro.



Source: Companies, Troika Dialog estimates

EV/HA FARMED

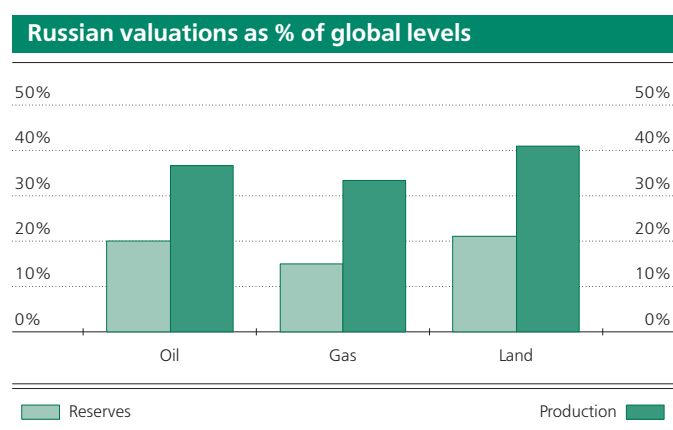
This metric gives an even tighter conclusion. The two liquid companies trade at above our maximum fair value of \$6,000/ha, while the rest are cheaper. This leads us to the conclusion that, at present, the market tends to value more highly those companies with liquidity and which are well known, and does not focus much on relative fundamental attractiveness.



Source: Companies, Troika Dialog estimates

Asset values

Land bulls often make the analogy between land and gas, and it is no surprise that Sweden, home to Vostok Nafta, the pioneering early-stage investor in Gazprom, is home to three of the four main foreign land companies. The argument is that CIS land will appreciate in value in the same way that gas did toward international levels. However, this argument is not borne out by current valuation levels: land in the CIS as a percentage of global land valuations is already trading at levels above oil and gas on the basis of EV/land bank and EV/land farmed. Moreover, this methodology has largely been dropped by investors in the oil and gas space as they have focused more on cash flows.



Key risks

- Numbers.** Many of the land companies lack detailed numbers at present, and are rather more akin to business plans than to conventional companies. We, along with the rest of the market, are presently obliged to rely more on rosy projections than on hard facts. This is bound to encourage number inflation, as we saw in the dot-com boom, and we would caution investors to be very skeptical and focus on results rather than potential.
- Capital requirements.** Capital requirements are far greater than companies (with some notable exceptions like Trigon Agri) have thus far made plain. We believe that the land companies above will need up to \$1 bln per year to bring their development plans to fruition.

Presentation Summaries

We summarize below some of the highlights from the presentations made at the conference. Copies of the presentations themselves are available on request, and they, of course, contain far greater detail.

Agrico

- Agrico is a mature Russian agroholding of Russian origin, but with Western representation in its management. The core businesses are cereal cultivation and trading, pig and vegetable farming and processing and logistics. The company has its roots in logistics.
- Agrico is based in Krasnodar Region in the south of Russia. This means both that yields are higher thanks to the warmer climate and that transport costs are lower thanks to proximity to the Black Sea.
- The company has a very impressive track record in international trade, and sells its cereals all over the world, having been a pioneer in opening up some markets such as Egypt. This means that the prices that it receives for grain are significantly higher than those obtained by pure domestic farmers.
- Agrico currently cultivates cereals and oilseed on 102,000 ha of land. The company would like to buy as much high-quality land as possible, but said that good land is in short supply.
- It has a growing seasonal vegetable cultivation on irrigated land (currently 1,000 ha, with a target of 2,000 ha for next year), and capitalizes well on Krasnodar Region's warm climate (which is similar to that of Turkey).
- In its pig and vegetable farming activities, the company builds on the fact that 65% of Russian red meat and 85% of vegetables are imported, while the government targets gradual import substitution of agro produce.
- Agrico moves down the value chain through investing into the end-consumer packaging of chilled meat and fresh vegetables, which in due course provides extra margins to the operations.
- Pigs are viewed as a natural hedge for cereal-market demand, as the consumption could be switched to in-house.
- Having a seasoned English farmer as a top executive adds to the company's attractiveness and investment case. Agrico has audited financial statements for six years, and is in final stages of pre-IPO searches. However, thanks to healthy operating margins and moderate capex requirements, the company is not in a desperate rush to go public.
- Agrico is investing in the retraining of local farm professionals, and faces the problem of rural depopulation.

Aston

- Aston is a vertically integrated agricultural holding with Russian ownership and origin. The company's core businesses are grain trading and cultivation, oilseed cultivation and vegetable oil production (branded), and third party grain logistics through its elevator system. The history of Aston is as a shipping company that has moved into agriculture. At present, the company has around 10% of the domestic market for vegetable oils.
- As with many Russian agro holdings, the company started with trading and gradually integrated down the chain in order to capture rising margins. Thanks to its origin as a trader, the company has a sales representation in the Middle East and North Africa. Aston is quite aggressive in its export and market diversification plans.
- The company operates 42,000 ha of land under grain and oilseed. Aston views the land as a production means rather than an asset. Although it targets 200,000 ha of land under cultivation, it is not looking to build an obsolete land bank, and seeks to decrease upfront capital investments by leasing the land instead of buying it. Aston sees the value in processing rather than in land ownership.
- Aston resolves the problem of depopulation in the rural sector through higher mechanization and equipment expenses. According to company figures, the current land bank is fully handled by 50 direct staff (excluding any administrative staff and truck drivers).
- As Aston targets much less land acquisition, its capital investment requirements are only around \$200 mln for the next two years. The company generates high operating margins, and can cover its capex requirements largely internally. Thus, Aston may wait for a year or two before going public in order to hit a cap of \$1.5-2.0 bln.
- Over time, the company intends to move down the value chain, sifting into starch, syrup and modified fats.
- The company is achieving its highest margins in agriculture, more so than from shipping or food processing.

Agroinvest Group

- Agroinvest Group is a private company that has a land bank of 50,000 ha in Ukraine's Odesa Region. It has a storage capacity of 217,000 tonnes, and the strategy is to increase this.
- The company is currently determining its strategy. The options are either to proceed in creating its own holding company and consolidate all assets belonging to the group, or to merge with another agriculture group with a land bank of around 50,000 ha, but which has 15 silos and is established in the grain-trading business in Ukraine. The company may conduct an IPO in 2009.
- Agroinvest Group plans to raise its land bank to 70,000 ha in 2008 and to 100,000 ha in 2009.
- The average land-lease cost was \$35.00/ha in 2007, and this is expected to rise to \$50.00/ha in 2008.
- Yields in 2007 were: 2.5 tonnes/ha for winter wheat; 1.9 tonnes/ha for winter barley; 1.6 tonnes/ha for spring barley; 1.4 tonnes/ha for rapeseed; and 0.8 tonnes/ha for sunseed.
- The company's revenues in 2007-08E are to total \$27.7 mln and its EBITDA during this period will be \$14.1 mln.
- The revenue forecast for 2008E-09E is \$54.0 mln, and EBITDA is expected to reach \$29.0 mln.

Alpcot Agro

- As of today, the company controls 129,000 ha of land, of which 52,700 ha should be harvested in 2008. The land bank is expanded by 10,000 ha per month on average, and by end 2008, the company intends to control a total of 200,000 ha (of which 100,000 ha is to be direct ownership).
- Alpcot Agro's focus today is on Russia, but over time, it intends to shift to Ukraine as well.
- The company charges management fees of 2.25% plus 25% of any excess return.
- Its stock currently trades OTC, but the company intends to list on the First North Market in Stockholm in 2008.
- After land is acquired, it takes around two years to break even and four to reach maximum productivity.
- The company's strategy is to acquire land in various regions in order to minimize weather and political risks as well as to have wider exposure to new acquisition opportunities.
- Western combines will be used for the majority of the cropped land, and as a result, the company intends to demonstrate wheat harvest yields of 2.9 tonnes/ha in 2008. It plans to achieve a harvest yield of 4.6 tonnes/ha by 2011.
- In terms of operational management, Alpcot Agro believes that attracting local professionals and implementing best international practice should bring the best results.
- In the medium term, the company plans to acquire and/or construct grain elevators at railroad connections, while in the short-run, investment into airtight storage capacity is more justifiable. Airtight storage allows grain to be stored from harvesting season until winter (when the prices are highest due to seasonality) and require investment of around \$40.00/tonne of capacity, versus the \$250/tonne required on average to construct elevator capacity.
- Alpcot Agro currently has \$98 mln in cash outstanding. The company has already invested \$30 mln in Western machinery, and estimates additional investment of \$20 mln by year end, as well as \$35 mln in storage and \$15 mln in working capital (\$400/ha on average).
- When projected harvest yields are achieved, the company expects revenues of \$1,340/ha of wheat and EBITDA of \$806/ha (implying an EBITDA margin of 60.2%).

Astarta Holding

- In 2007, Astarta Holding was second in the Ukrainian sugar market by producer share with 8.4% of the market. This is up from third place and 6.0% in 2006. Two thirds of revenues are sugar-related at present, but the company intends to reduce this to less than half over time.
- For 2008, revenues are estimated at EUR124 mln and net income at EUR24 mln.
- The company estimates that beet sugar in Ukraine is now comparable in price with cane sugar from Brazil given transportation costs and the attractions of refining into ethanol domestically.
- Its land bank currently amounts to 155,000 ha, with an average lease of five to 10 years and rent of \$60-70 per year. Rent is currently around 2.5-3.0% of the appraised value of the land rented. The goal is to increase the land bank to 250,000 ha and to increase yields by 50%.

- Of this, 145,000 ha are sown, which is a very high proportion compared with peers. Land now sown was added to the land bank between seasons: sugar beet (20%); wheat (21%); barley (15%); forage crops (11%); soy (10%); sunflower (7%); corn (7%); fallow land (5%) and others (3%).
- The breakdown of grain and oilseed output in 2007 was: wheat (34%); corn (25%); barley (20%); sunflower (10%); soy (9%); and others (2%).
- Growth in productivity is estimated at 50% in five years via modernization (i.e. with US machinery and technology). Astarta Holding's land has climate conditions very similar to North Dakota in the US, and the company uses the experience of farmers in North Dakota to improve its own production.
- Around \$20 mln in machinery purchases has been spent in the past two years.
- Astarta Holding is lowering its cost of modernization by buying up virtually new machinery from the recently modernized but distressed European agriculture firms at prices substantially lower than new equipment.
- The company's sugar extraction rate is around 13.0%, and it plans to increase this to 14.5% in the next two to three years.
- Astarta Holding utilizes sugar production byproducts; pulp (80% of production) is used to feed cattle and produce granulated animal feed, which sells for around \$300/tonne. Molasses (5%) is sold to confectioners and used for in-house bio-ethanol production.
- The highest margins are in the grain segment (around 50%), followed by sugar (around 25%) and cattle farming (slightly below 20%).
- The cost of producing sugar beet is UAH170/tonne.
- None of the sugar production is exported.
- Astarta Holding is focused on increasing its in-house sugar beet production. Of sugar beet, 42% was grown in-house in 2006, 71% in 2007 and 77% in 2008E. By 2011, the company plans to produce 100% of sugar beet in-house.
- The main focus is on B2B sales, with Coca-Cola being the single largest client, purchasing around 20% of Astarta Holding's sugar output. The share of B2B sales rose from 61% in 2006 to 72% in 2007.
- The holding received a \$20 mln loan from the EBRD for modernization.

Cherkizovo Group

- Meat consumption in Russia is far below European rates. Based on 2007 data, Russians consume 54 kg of meat per capita per annum, compared with 78 kg in Soviet times and 79 kg on average for the EU. This ensures market volume growth at a CAGR of 4% over 2007-12E.
- The market is still very fragmented, with the top three producers controlling 29% of the poultry market and only 12% of the pork market, revealing the potential for industry consolidation.
- In 2007, the meat processing division generated 57% of revenues; given the higher profitability of the pork and poultry divisions, the company intends to achieve a revenue split of 33% each in the medium term.

- Cherkizovo Group currently controls 50,000 ha of land (of which 20,000 ha is owned and 30,000 ha is under 49-year lease) in order to ensure in-house feedstuff production. However, as is well known by the market, this land is operated by a related party that appears to take the financial upside from the returns to the land. Also, the company operates grain elevators with storage capacity of over 50,000 tonnes.
- Cherkizovo Group's 2007 capex was \$187 mln, while it is projected at around \$162 mln for 2008E. The company has net debt of over \$600 mln, which is large compared with other companies in the space.
- Pork division capacity increased 130% in 2007 to 27,700 tonnes. The completion of the investment program should allow output to be increased to 40,000 tonnes in 2008 and 70,000 tonnes in 2009.
- The company's 2008 strategic task is to increase the synergy from Chicken Kingdom consolidation and boost pork production volumes.
- Due to state reimbursement of interest expenses on loans raised for investments in agriculture, Cherkizovo Group's effective cost of debt is as low as 2.8%.
- In the long run, the company intends to achieve debt/EBITDA of 3.5 and maintain it at this level.

EBRD

- The EBRD has invested \$3.1 bln in 271 agriculture projects across the region, mainly in retail and processing.
- The EBRD has hitherto avoided investing in land plays. However, it is now looking at an increasing number of opportunities in this space.
- There is a one-off opportunity to obtain large amounts of land, and a huge land grab is taking place across the region.
- Land prices are rising fast, and there is a danger that they may spin out of control.
- It is key to remember that the cost of land is only the initial expense. Companies also need money for working capital.
- Banks are not used to providing working capital, and the lack of clear title in many companies makes it more difficult to raise money against the land.
- There is virtually no track record of institutions investing in the land space in the CIS, and many of the players are venture capitalists.
- Local contacts in the land business are key to success. Foreign companies are likely to struggle.
- There is room for consolidation, and the market is still hugely fragmented. Much M&A is likely, with many European companies interested in getting into the space.
- Infrastructure and processing are still very underdeveloped.

Kernel

- Kernel has a market share of 35% of bottled oils and 12% of sunflower exports, making the company number two in Ukraine. It has a huge 1.7 mln tonnes of grain-elevator capacity, 9% of grain exports, and has just purchased a port on the Black Sea with a throughput capacity of 3 mln tpy. The acquisition of the port dramatically increases flexibility.
- The company has three working oilseed crushing plans in Ukraine, and is looking to build a fourth. In addition, it is seeking to buy refining bottling operations across Eastern Europe.
- It farms only in central Ukraine. The west is traditionally not such a major area of farmland, and there are too many droughts in the south.
- In response to a question from the floor as to how it can compete with, say, Cargill, the company replied that it has the land and the local connections. Thus far, Cargill has avoided going down this route, as it does not have the necessary expertise.
- The company argues that there is no available spare land in central Ukraine.
- Kernel does not see huge potential to increase yields.

Landkom

- Landkom wants to become Europe's largest producer of agricultural feedstock.
- At present, Landkom has the smallest area farmed of any of the companies at the conference. This was 15,000 ha in 2007-08, and is projected to rise to 40,000 ha in 2008-09.
- Landkom prefers to employ locals, and sees itself as a Ukrainian company.
- The plan is to control 115,000 ha at end 2008, and to farm around 40,000 ha.
- The company is selling wheat at \$215/tonne. Sales are ex-silo and the company has no plans to move into the processing business.
- The plan is to increase productivity to 6 tonnes/ha.

Land West

- Land West's land bank is 184,300 ha in western Ukraine, of which 53,000 ha will be harvested in 2008. The rest of the land cannot be sub-leased, and needs improvements in land structure before being put to work.
- Annual lease expenses total around \$40.00/ha. The cost of buying a lease is around \$350 per annum.
- Land West has close relations with the local authorities, which it says gives them an edge in terms of sourcing land and resisting unreasonable local demands.
- The company's strategy is to grow around 14 types of crop in order to diminish market risks.
- Current machinery and equipment capacities allow it to cultivate around 30,000 ha, while infrastructure capacities enable 25,000 tonnes of crops to be held in stock.
- Land West raised \$43 mln in 2008 via private placement of a 20% stake.
- The company plans an SPO in 2008.

- Land West's yields in 2007 were: maize, 4.7 tonnes/ha; wheat 3.6 tonnes/ha; barley, 2.5 tonnes/ha; rapeseed, 2.1 tonnes/ha; rye, tonnes/ha 1.5.
- The company plans to double its existing land bank to 343,000 ha by 2011.
- Land acquisition plans: 26,300 ha in 2008; 20,000 ha in 2009; 40,000 ha in 2010; 72,400 ha in 2011.
- Land acquisition will be financed by IPO and debt financing.
- The main focus is on increasing productivity via proper crop rotation, use of fertilizers and modern technologies.
- Distribution of land between winter and spring crops is around 30:70.
- For 2008, revenues are estimated at \$55 mln and EBITDA at \$0.9 mln. For 2009, they are expected to come in at a respective \$113 mln and \$19.9 mln.

Laurence Gould

- The global stock/use ratio in cereals of 15% is as low as it was in the 1970s. Stock replenishment this year is likely to keep prices high.
- Wheat roots tend to go down 1.8 m. One key aspect of the land companies is to bring in machinery powerful enough to break through the Soviet pan of hard earth that stops roots breaking below 50 cm or so and down to their potential depth.
- The link between oil prices and that of coarse grains (such as maize) is well established. With high oil prices, coarse grains prices are likely to remain elevated.
- The key factors for farmers in the region are: land quality; finding good labor; management ability; rainfall; storage; and finance.
- Cooch grasses are a major issue, and it is tough to get rid of them.
- Global warming has been increasing winter kill because there is no snow cover for winter crops.
- The region needs huge amounts of capital in order to improve land quality and rebuild infrastructure.

MCB Agricole

- MCB Agricole's strategic goal is to become one of the leading agricultural companies worldwide, with a focus crop cultivation.
- The company is well on track to expanding its land bank to 400,000 ha by 2010 (as declared during the placement in March 2008), which would make it one of the largest land holdings in Ukraine. MCB Agricole currently leases 80,000 ha of land, and is targeting the addition of another 70,000 ha by end 2008.
- Strengths that differentiate MCB Agricole from other players and position the company to maximize growth:
 - Highly professional team, with nine years' experience in the agro business.
 - Proven management with extensive network of established working relationships with state and local authorities in Ukraine.

- Fertile land, geographically diversified over 11 regions, which allows exposure to climatic, social and political risks to be minimized. The diversified mix of crops, together with strategic distribution of land between winter (56%) and spring (44%) crops, further diminishes agricultural risks.
- Focus on high-margin crops (wheat, rapeseed, corn, sunflower, barley, corn and rye), stringent cost control and security measures, together with modern agro technology and high-quality seeds, allow MCB Agricole to demonstrate yields that exceed Ukraine's average by 20-30%. Further improvements to the business processes and agricultural technologies, as well as the use of high-quality seeds and fertilizers, should help to bring MCB's yields to a level approaching the EU-15 average in four to five years.
- Current machinery and equipment capacities allow the company to cultivate 80,000 ha of land. By year end, these capacities are to be expanded to 140,000 ha.
- After a 2 pp reduction in the EBITDA margin from 34% in 2008E to 32% in 2009E, MCB Agricole plans to return to levels exceeding 35% by 2011.
- MCB Agricole intends to focus on farming rather than processing. From the data that were provided, it appears to have the lowest wheat production costs, at \$463/ha.
- The company has developed its own in-house technologies to reduce costs and increase yields in the farming of very large areas of land. It argues that this type of technology has never been tried anywhere else, but was reluctant to divulge its secrets on how it worked.

Myronivsky Hliboproduct

- Myronivsky Hliboproduct's strategic objective is to maintain its leading position among agro-industrial companies in Ukraine, with a focus on poultry and grain production.
- This to be achieved by concentrating on further integration: vertical integration to decrease effective fodder costs, becoming self-sufficient in corn for poultry production following the 2008 harvest) and the use of alternative energy sources; and upward integration to higher value-added meat processing and convenience-food products under the Lehko brand. Distribution is to be expanded, with a focus on promoting branded products.
- Expansion of the grain business. The current agricultural land bank of 148,000 ha is to be increased to 180,000 ha by end 2008. Myronivsky Hliboproduct plans to add 30,000-40,000 ha per year to its land bank. Crops cultivated are corn (40-50% of area), sunflower (10-15%), wheat (20%) and rape.
- Expansion of poultry operations. The Myronivka complex (expected to be fully operational in late 2009) will produce 200,000 tpy of poultry and should bring the group's poultry production capacity from the current 230,000 tpy to 350,000 tpy by 2010.
- The company showed promising 1Q08 results. Revenues were up 133% to \$176 mln; the EBITDA margin was up from 32% in 1Q08 to 34%; and net income rose 430% to \$24 mln. Poultry and related operations (fodder production and sunflower oil that is sold in bulk, not refined via traders) comprise around 90% of 1Q08 revenues.
- All sales are currently domestic. Still, opportunities to export both chilled and frozen poultry may be considered in 2014-15.

Trigon Agri

- Trigon Agri currently controls 134,000 ha of land in Russia and Ukraine, with a year-end target of 200,000 ha. The two-year land target is 300,000 ha. In addition to cereals, the company has roughly 5,000 ha under dairy farming.
- Trigon Agri will harvest around 65,000 ha in 2007-08, making it one of the larger Western operators.
- The company has a management-fee structure of 2% of assets plus a 20% performance fee.
- Trigon Agri has a clear vision of its business model and ability to demonstrate it to investors. The company's target wheat yields of 6.5 tonnes/ha in Russia and 7.0 tonnes/ha in Ukraine seem high to other agroholding representatives. Given Trigon Agri's higher operating expenses per ha, the company may be looking for a trade-off between the marginal benefits and costs of each additional tonne/ha of wheat harvested.
- Trigon Agri typically operates 10,000-12,000 ha land plots in 100 km radii from large population centers in order to ensure the supply of human resources and lower transportation costs to end consumers. As part of its business strategy, the company acquires or installs elevation/storage facilities networks, which allow it to enjoy an additional 12-15% gross margin that is usually retained by grain traders.
- Due to the origin of its founders, the company is built on the base of Nordic agricultural know-how, but has a policy of localizing the management and workforce.
- Trigon Agri looks over time to raise some \$700 mln for further investments in land and infrastructure. The plan is to raise much of this via debt. While this is a larger number than that given by other companies, we believe that this is merely because Trigon Agri is being more open with the facts, and that others will inevitably face the need to raise large amounts of additional capital.
- The company considers it vital to have elevators and other necessary infrastructure, and this is a key part of its development plan.

Ukrros

- Ukrros is the largest sugar producer and processor in Ukraine, with a 9.4% market share in 2007 and plans to increase this in 2008.
- The land bank was 60,000 ha as of end 2007.
- Capex plans for 2008 are around \$5 mln for plant modernization and around \$8 mln for land improvement and land-bank growth.
- Ukrros plans to increase its land bank to 100,000 ha in 2008 and bring its sugar beet acreage up from 8,900 ha in 2007 to 12,900 ha in 2008.
- In 2010, total cropland is expected to reach 140,000 ha, with sugar beet at around 22,500 ha.
- The breakdown of Ukrros' acreage by crop as of May 2008 is: wheat, 26%; barley, 23%; sugar beet, 16%; corn, 11%; sunseed, 5%; soy, 4%; others, 15%.
- Ukrros plans to increase the acreage of more profitable crops (wheat, barley, corn, soy and sunflower) in the 2008-09 season.

- The sugar beet yield in 2008 was around 27,000 tonnes/ha.
- Energy-saving technologies are a top priority for Ukrros in its plant modernization program
- Of the company's sugar beet, 13% is grown in-house.
- The company plans an international listing in 2010.

Company data

	Hectares under control			Hectares farmed		
	Currently	2008E	2009E	2007-08E	2008E-09E	2009E-10E
Black Earth Farming	325	350	400	53	150	230
Alpcot Agro	130	200	200	50	100	160
Trigon Agri	133	200	300	65	90	200
Land West	180	200	230	52	150	210
Mriya	100	190	200	85	120	150
MCB Agricole	73	150	275	60	140	300
Landkom	100	115	200	15	40	80

Source: Companies, Troika Dialog estimates

DISCLOSURE APPENDIX

IMPORTANT US REGULATORY DISCLOSURES

An affiliate of Troika Dialog USA makes a market in the securities of Astarta Holding, Cherkizovo Group.

The research analysts, strategists, or research associates principally responsible for the preparation of this research report have received compensation based upon various factors, including quality of research, investor client feedback, stock picking, competitive factors, firm revenues and overall investment banking revenues.

ANALYST CERTIFICATION

The following analyst(s) hereby certify that the views expressed in this research report accurately reflect such research analyst's personal views about the subject securities and issuers and that no part of his or her compensation was, is, or will be directly or indirectly related to the specific recommendations or views contained in the research report: Kingsmill Bond, Andrey Kuznetsov, Tigran Hovhannisyanyan, Mikhail Krasnoperov, Alexander Tsependa

Senior Management

**Chairman of Board
of Directors and CEO,
Troika Dialog Group** Ruben Vardanian

**Head of Investment Banking
and Global Markets** Jacques Der Megreditchian

**Chief Economist,
Managing Director** Evgeny Gavrilencov

Research Department **+7 (495) 258 0511**

Head of Research Paolo Zaniboni +7 (495) 787 2381

Strategy

Chief Strategist Kingsmill Bond, CFA +44 (207) 583 3257

Strategist Andrey Kuznetsov +7 (495) 933 9844

Oil and Gas

Senior Analyst Oleg Maximov +7 (495) 933 9830

Analyst Alex Fak +7 (495) 933 9829

Analyst Nicolas Robert +7 (495) 933 9858

Analyst Valery Nesterov +7 (495) 933 9832

Utilities

Senior Analyst Alexander Kotikov +7 (495) 933 9841

Analyst Igor Vasilyev +7 (495) 933 9842

Telecoms, Media and IT

Senior Analyst Evgeny Golossnoy +7 (495) 933 9834

Assistant Analyst Anna Lepetukhina +7 (495) 933 9835

Metals and Mining

Senior Analyst Sergey Donskoy, CFA +7 (495) 933 9840

Analyst Mikhail Stiskin +7 (495) 933 9839

Assistant Analyst Ilya Klenin +7 (495) 933 9831

Assistant Analyst Irina Lapshina +7 (495) 933 9852

Manufacturing

Analyst Gennady Sukhanov, CFA +7 (495) 933 9850

Analyst Mikhail Ganelin +7 (495) 933 9851

Assistant Analyst Irina Lapshina +7 (495) 933 9852

Financials

Analyst Andrew Keeley +7 (495) 933 9845

Analyst Olga Veselova +7 (495) 933 9846

Consumer

Senior Analyst Victoria Grankina +7 (495) 933 9836

Analyst Mikhail Krasnoperov +7 (495) 933 9838

Real Estate

Senior Analyst Tigran Hovhannisyan +7 (495) 933 9859

Assistant Analyst Semyon Fomin +7 (495) 933 9864

Chemicals

Analyst Mikhail Stiskin +7 (495) 933 9839

Transport

Analyst Kirill Kazanli +7 (495) 933 9853

Small and Mid Cap

Analyst Gennady Sukhanov, CFA +7 (495) 933 9850

Analyst Mikhail Ganelin +7 (495) 933 9851

Assistant Analyst Irina Lapshina +7 (495) 933 9852

Corporate Governance

Analyst Elena Krasnitskaya +7 (495) 933 9854

Market Analysis

Assistant Analyst Nadezhda Utenkova +7 (495) 933 9855

Economy

Senior Economist Anton Stroutchenevski +7 (495) 933 9843

Options

Analyst Denis Agaponov, CFA +7 (495) 258 0511

Assistant Analyst Asia Gubeidullina +7 (495) 258 0511

Fixed Income

Head of FI Research Alexander Kudrin +7 (495) 933 9847

Senior Analyst Anna Matveyeva +7 (495) 933 9848

Senior Analyst Anton Tabakh, CFA +7 (495) 933 9857

Analyst Ekaterina Sidorova +7 (495) 933 9849

Assistant Analyst Alexander Margeev +7 (495) 933 9856

Ukraine

Head of Research Malcolm MacLachlan +38 (044) 207 3780

Strategist Roman Zakharov

Economist Iryna Piontkivska

Analyst Yevhen Hrebenuk

Senior Analyst Peter Keller

Analyst Maria Maiboroda

Analyst Alexander Martynenko

Analyst Iryna Tshahelnik

Analyst Alexander Tsependa

Head Office, Moscow

4, Romanov Pereulok
Moscow, 125009, Russia

Phone +7 (495) 258 0500
Fax +7 (495) 258 0547
Research +7 (495) 258 0511
Equity Sales +7 (495) 258 0550
Fixed Income Sales +7 (495) 258 0510
Trading +7 (495) 258 0525
Options Trading +7 (495) 258 0555
Structured Products +7 (495) 258 0572
Treasury Products +7 (495) 258 0530

St Petersburg

23, Malaya Morskaya Street
St Petersburg, 190000, Russia

Phone +7 (812) 380 6850
Fax +7 (812) 380 6851

Ekaterinburg

Office 201, Ekaterinburg World Trade Center
44, Kuibyshev Street
Ekaterinburg, 620026, Russia

Phone/fax +7 (343) 310 7000

Irkutsk

19, Lenina Street
Irkutsk, 664003, Russia

Phone/fax +7 (3952) 56 3636

Kazan

"Suvar Plaza" Office Center
6, Spartakovskaya street
Kazan, 420107, Tatarstan, Russia

Phone/fax +7 (843) 526 5522

Nizhni Novgorod

22/4, Minina Street
Nizhni Novgorod, 603155, Russia

Phone +7 (8312) 19 7796
Fax +7 (8312) 19 7798

Novosibirsk

1, Dimitrova Prospekt
Novosibirsk, 630004, Russia

Phone +7 (383) 210 5502
Fax +7 (383) 210 5503

Perm

58, Lenina Street
Perm, 614000, Russia

Phone +7 (342) 218 6146
Fax +7 (342) 218 6149

Rostov-on-Don

84/1, Kirovsky Prospekt, 3rd floor
Rostov-on-Don, 344022, Russia

Phone/fax +7 (863) 291 0091

Samara

204, Molodogvardeiskaya Street, 10th floor
Samara, 443001, Russia

Phone +7 (846) 378 0000
Fax +7 (846) 273 3328

Ufa

KPD Business Center
132/3, Prospect Oktyabrya, 8th floor
Ufa, 450069, Russia

Phone +7 (347) 292 2026
Fax +7 (347) 279 8881

Vladivostok

6, Mordovtseva Street
Vladivostok, 690091, Russia

Phone +7 (4232) 49 9925
Fax +7 (4232) 49 9926

Troika Dialog USA, Inc.

Carnegie Hall Tower
152 West 57th Street, 44th Floor
New York, NY 10019

Phone +1 (212) 300 9600
Fax +1 (212) 300 9601

Troika Dialog UK

85 Fleet Street, 4th Floor
London, EC4Y 1AE

Phone +44 (20) 7583 3257
Fax +44 (20) 7822 0779

Troika Dialog Ukraine

6, Rylskiy Pereulok, 6th floor
Kyiv, 01025, Ukraine

Phone +380 (44) 207 3780
Fax +380 (44) 207 3784

Internet

<http://www.troika.ru> wap.troika.ru

This research report is prepared by TROIKA DIALOG or its affiliate named herein and provides general information only. Neither the information nor any opinion expressed constitutes a recommendation, an offer or an invitation to make an offer, to buy or sell any securities or other investment or any options, futures or derivatives related to such securities or investments. It is not intended to provide personal investment advice and it does not take into account the specific investment objectives, financial situation and the particular needs of any specific person who may receive this report. Investors should seek financial advice regarding the appropriateness of investing in any securities, other investment or investment strategies discussed or recommended in this report and should understand that statements regarding future prospects may not be realized.

Investors should note that income from such securities or other investments, if any, may fluctuate and that price or value of such securities and investments may rise or fall. Accordingly, investors may receive back less than originally invested. Past performance is not necessarily a guide to future performance.

Any information relating to the tax status of financial instruments discussed herein is not intended to provide tax advice or to be used by anyone to provide tax advice. Investors are urged to seek tax advice based on their particular circumstances from an independent tax professional.

Foreign currency rates of exchange may adversely affect the value, price or income of any security or related investment mentioned in this report. In addition, investors in securities such as ADRs or GDRs, whose values are influenced by the currency of the underlying security, effectively assume currency risk.

The information contained herein has been obtained from, and any opinions herein are based upon, sources believed to be reliable, but no representation is made that it is accurate or complete and it should not be relied upon as such. All such information and opinions are subject to change without notice.

From time to time, TROIKA DIALOG or its affiliates or the principals or employees of its affiliates may have or have had positions or derivative positions in the securities or other instruments referred to herein or make or have made a market or otherwise act or have acted as principal in transactions in any of these securities or instruments or may provide or have provided investment banking or consulting services to or serve or have served as a director or a supervisory board member of a company being reported on herein.

TROIKA DIALOG maintains strict internal policies, which are designed to manage any actual or potential conflicts of interest from harming the interests of investors.

Further information on the securities referred to herein may be obtained from TROIKA DIALOG upon request.

This report may not be reproduced, copied nor extracts taken from it, without the express written consent of TROIKA DIALOG.

For residents of the United States: This research report is being distributed in the United States by TROIKA DIALOG USA, INC., which accepts responsibility for the contents hereof. Any U.S. person receiving this report who wishes to effect transactions in any securities referred to herein should contact TROIKA DIALOG USA, INC., not its affiliate. Further information on the securities referred to herein may be obtained from TROIKA DIALOG USA, INC. upon request.

For residents of the United Kingdom and rest of Europe: Except as may be otherwise specified herein, this research report is communicated to persons who are qualified as eligible counterparties or professional clients (as defined in the FSA Rules) and is made available to such persons only. The information contained herein is not intended for, and should not be relied upon by, retail clients (as defined in the FSA Rules).