

5 May 2009

# LANDKOM INTERNATIONAL PLC

## Preliminary Results - First Full Year of Operations

Landkom International PLC (AIM: LKI, "Landkom" or the "Group"), the Ukrainian producer of high value oilseed rape and wheat, today announces its preliminary financial results for the year to 31 December 2008.

### Highlights

- First major harvest completed achieving over 45,000 tonnes of grain
- 30,950 hectares (ha) planted for harvest in 2009 - all agricultural inputs applied
- Positive crop audit at end of winter - crop in good condition with minimal winter damage
- Land bank restructuring underway to retain most profitable elements of 115,000 ha land bank
- Significant cost cutting measures introduced in Q4 2008 with strong emphasis on cash conservation and generation
- Substantial investment in machinery, vehicles, logistics plus drying and storage facilities nearing completion
- Cash position as at 31 December 2008, \$4.2 million supplemented by a subsequent placing in March 2009 raising gross proceeds of \$6.8 million

**Richard Spinks**, Landkom Chief Executive, commented

*"We have made considerable progress in 2008. We have gathered the first scale harvest, planted 31,000 hectares of winter crop and made further significant investment in the Group's operations in Ukraine."*

*"We are now a considerable professional scale farming enterprise with a substantial logistics fleet, sufficient owned and leased drying and storage facilities and the appropriate equipment to deliver against the requirements of the business."*

*"Despite the challenging economic conditions, we now have the building blocks in place to take the business forward to the next stage. We are confident that we will translate the considerable investment made in 2008 into profits."*

### For further information:

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## **Strategy overview**

2008 was a year of two very different and unequal parts. During the first nine months, the Board continued to implement the original strategy to build the land bank rapidly and plant and harvest the first significant hectareage whilst maintaining the investment programme.

The investment programme centred on agriculture and logistics equipment, drying and storage facilities and crop inputs. This will enable the Group to carry out its scale farming operations into the future. Prior to the arrival of Landkom, many of the areas in which the Group operates had little or no useful infrastructure owing to the lack of investment over the preceding 20 years.

Towards the end of the first harvest, the Board implemented a detailed strategic review to develop plans for the next phase and also to take account of the rapidly deteriorating market conditions and general economic environment. This deterioration had significantly reduced agriculture commodity prices, agriculture asset values and had a material impact on the availability of credit for working capital and trade facilities.

Following this review, the Board shifted Landkom's strategic focus to concentrate on rationalising the land bank, focussing on efficiency in land usage, yield per hectare and cost controls to maximise profitability and cash-flow. During Q4 2008 and into Q1 2009, the Group has realigned the variable cost base to the current size of operations matching current market sentiments and opportunities.

Resources are now strictly applied to either crops or key strategic business projects such as storage and drying capability. The Board plans to free up capital by divesting joint ventures or disposing of non core activities.

Landkom's long term objective remains unchanged: to become a leading oilseed and grain producer, supplying global markets. The Group seeks to utilise local land, labour and the favourable weather conditions to achieve profitable yields using high yield agronomic practices.

Despite the current global downturn the world's population continues to grow and the fundamentals of the Group's strategy to develop a substantial enterprise introducing Western farming techniques into a fertile and underdeveloped part of Europe remain sound. Food and energy security trends also continue to support this strategy.

## **Operational Review**

Despite record rainfall in the harvest season and a winter and spring wheat harvest which proved to be very disappointing in terms of results and quality, the farming team brought in over 45,000 tonnes of grain in extremely difficult working conditions. A logistics fleet of over 220 lorries, buses, cars and tankers ensured the timely movement of people, machinery and grain. An agricultural fleet of 65 western tractors and 19 western combines is in place executing the farming operations. These are supplemented by older soviet style tractors.

After completion of the harvest and as part of the revised strategy outlined above, the Group implemented an in-depth analysis of the cost and efficiency of all operations designed to focus on certain key areas. One such area is strict adherence to input application windows to ensure efficient use of all inputs. The new streamlined farming team with fewer expat managers has achieved a year on year threefold increase in winter planting, whilst at the same time ensuring all application windows are met.

Preparations for the 2009 harvest are significantly further advanced compared to last year with all drying and storage contracts concluded and with all outsourced combine contracts signed.

## **Land bank**

The Group acquires leasehold interests in the land it controls. The Group's cultivated land lies predominantly in the west of Ukraine in close proximity to the EU border with Poland. In addition, the Group controls land with irrigation potential in the Crimea.

As land is held through lease agreements, no value is attributed on the balance sheet to the value of the lease or the value of investment in the land through land preparation and crop cultivation. Typical leases with individuals have a 15 year term and also include the right to buy in the event of regulations changing regarding the sale of freehold agricultural land.

At the year end Landkom controlled approximately 115,000 ha of land. Of this 115,000 ha, approximately 60% of leases had an outstanding term of between 10 and 15 years. The average lease length was approximately nine years.

Regional farm bases are equally important as they provide secure areas to store and monitor crop inputs close to where the resources are required. During 2008 Landkom acquired the freehold rights to 13 farm bases in regions where it leases land. The provision of these farm bases will provide cost savings in future years compared to 2008 when operations were run from the main Bily Kamin farm base.

Land remains the key resource of the business but as the dynamics of the markets changed during the year the Group needed to increase the proportion of the land bank being actively farmed. To that end, in the latter part of 2008, Landkom ceased land lease acquisitions having met the year-end target of 115,000 ha.

In January 2009, the Group took this a stage further by deciding to rationalise the land bank by focussing on the most economic and fertile areas and disposing of some parts of the land bank that do not meet strict revised criteria. The Group will now embark on measured, controlled growth of planted area within the reducing land bank with a strong focus on delivering profits from crop currently in the ground. Since January the Group has reduced land under control to approximately 91,000 ha, a successful first stage to land bank restructuring.

Following the decision to rationalise the land bank, the land team has been reduced by around 25%. The remaining staff are involved in the administration of land rental payments and maintaining local relationships.

In addition to its central operation in the west of Ukraine, Landkom has also established a second, smaller operation in Crimea currently with around 5,000 ha of land, 3,500 ha of which is currently planted predominantly with wheat. This farming operation is run on a low cost model independently from the farms in west Ukraine. The farm was acquired as a working entity so the cost of restitution of derelict land has not been required. Tight financial controls are already in place.

The land in Crimea was formerly irrigated and has infrastructure, storage and drying facilities in place including a pumping station and piping. This farm is earmarked for modernisation of its irrigation infrastructure through the provision of new pivots which will allow Landkom to supply water, fertiliser and chemicals directly onto the land through an irrigation system as the crop requires. Landkom is collaborating with NYSE listed Lindsay Corporation on an initial 64 ha irrigation trial in Crimea.

### **Crop Sowing and Maintenance**

Landkom utilises modern western agricultural equipment, quality seed, chemicals and fertilisers and the latest agronomy techniques. In addition the farming operation employs 330 local Ukrainian farmers carrying out different roles from agronomists, farm managers, vehicle drivers, mechanics and labourers.

30,950 ha of crop were planted in the autumn of 2008, a threefold increase over the same period in 2007. Landkom's 15 agronomists are supplemented by advice from Scottish Agricultural College ("SAC"). SAC, with its permanent presence in Lviv, provides immediate consultancy advice on agronomy and best practice as and when required.

In order to work the large fields, the Group has invested in a large fleet of western agricultural equipment including John Deere tractors, Claas Lexion combine harvesters and Horsch cultivator seeders.

Multiple applications of fertiliser and chemical are applied on the fields throughout the year within specific windows to ensure optimal performance and return on investment. The data acquired during the 2008 harvest will enable the group to continue to improve its crop management techniques.

Weather is the greatest risk to the farming operation since weather can squeeze application windows and hinder harvesting. Weather risk lies principally around extended winter months, unseasonal frosts and heavy rain during the summer growing and harvesting.

## **2008 Harvest**

The west of Ukraine faced unusually unfavourable conditions during the summer of 2008. Additionally, the heaviest rain in living memory fell and caused local disasters in many areas. Heavy rain delayed the harvest especially the wheat crop which suffered a significant degradation in quality along with much of the wheat grown in Ukraine. The team had to manage the harvest of the 4,000 ha of spring wheat which provided unsatisfactory yields. There are no plans to plant spring wheat again in the near future. Despite the weather, Landkom harvested 19,572 tonnes of high oil content OSR and 25,681 tonnes of wheat of different grades.

Commodity prices have proven volatile in 2008. Landkom signed an off take agreement with Glencore for 9,000 tonnes of OSR, the principal value crop, at \$540 per tonne (ex VAT). This was an attractive price in the Ukrainian market in 2008.

## **Capital Expenditure**

2009 capital expenditure was brought forward into 2008 owing to the shortage of supply of machinery with which the Group was faced with at the beginning of 2008, prior to the economic downturn and the fall in agricultural commodity prices. This means that 2008 year end cash is lower than expected but 2009 capital expenditure will be insignificant and concentrated mostly around the completion of the drying and storage facility in Krasne.

In addition to the Group's investment in the agricultural fleet, Landkom has also invested in a major service department. The Group has implemented strict servicing and maintenance schedules to minimise costly downtime during important application and harvest windows and also to prolong the life of equipment.

## **Storage and Logistics**

There is a lack of modern drying and storage facilities in the west of Ukraine. Soviet style facilities tend to have poor intake rates for drying which severely limits their capacity to take Landkom's grain during the busy harvest period. Investment has only commenced with the increase of grain prices in recent times.

Landkom has developed strong relationships with silo owners in the regions. Contracts have been signed to cover the drying and storage of the entirety of this year's crop. In addition, Landkom's own drying and storage facility by the rail side at Krasne is due to be completed before the harvest this summer. Krasne has a drying capacity of 50-100 tonnes per hour depending on moisture and storage of 20,000 tonnes. Equipment has been purchased and is on site, which can double this drying and storage capacity.

This contracted and own storage capability is complemented by five flexible flat storage warehouses which can in total hold up to 17,000 tonnes of grain and are used during harvest as buffers in the event that silos cannot keep up with Landkom's harvest rates. At other times, they are utilised for storage of crop inputs and vehicles.

The logistics effort to coordinate farming of 31,000 hectares over Landkom's operations is significant. A fleet of over 220 vehicles keeps the operations on the road. During peak times additional vehicles are contracted in.

## **Community Development**

The Group's programme of regenerating land in Ukraine is providing employment and wealth creation for the local communities and regions where the Group leases land which is especially important during difficult economic conditions. Landkom made significant contributions to social programmes in partnership with local people in some of Ukraine's poorest villages and regions. In particular it helps

the very young and elderly in the communities where the Group leases land through donations and support to schools, orphanages and hospitals.

## Management and Employees

As an international business located in Ukraine, the Group places increasing importance in the sharing of knowledge between a smaller number of experienced expat farmers and local Ukrainian farmers who have been working the land in some cases for decades. At the end of December the Group employed 740 people. The focus is on bringing the level of employees to best in class and better utilising the human resource currently within the Group.

## Financial Review

Revenue in the 12 months to 31 December 2008 was \$10.6 million. Around \$8.9 million of this sum was from the sales of OSR with the remainder being wheat and other crops in smaller quantities. At the year-end Landkom had sold all significant stocks of OSR but held 17,245 tonnes of wheat and other crop in storage, which is recognised as inventory on the balance sheet at fair value less costs to sell. All of the remaining crop in storage has now been sold.

These results reflect the investment programme, costs and revenues of the 2007/8 crop cycle. The improved financial performance for the 2008/9 crop cycle, based on improved financial budgeting, tight control and the lessons learnt from Landkom's first scale crop, will be seen in the next set of results.

The biological asset valuation loss in the income statement of \$11.0 million is made up of two elements. The first is the estimation of the gain in fair value of the crop in the ground, planted in the autumn of 2008 amounting to \$68,000. The second element of \$11.1 million represents the actual loss in biological asset of the 2007/8 crop, which takes into account the variance in value of inputs as stated in last year's figures to actual in the 2008 harvest and variance in the value of the biological asset at the time of harvest compared to estimates made at 31 December 2007. The value of the biological asset at the time of harvest is a function of yields achieved and market prices at harvest.

The biological asset fair value of \$13.4 million in the balance sheet at 31 December 2008 represents the expected fair value of the 2008/9 crop at harvest less future costs to be incurred, discounted back to 31 December 2008 and adjusted for the degree of growth achieved by 31 December 2008.

Direct costs were \$36.3 million in the year to 31 December 2008.

Included in the \$36.3 million are farming costs for the crop harvested in 2008 and land preparation costs relating to the work carried out in the financial year 2008. Depreciation was \$4.7 million.

The breakdown of operational expenditure is, in the Board's view, a better presentation of the Group's operational performance. Therefore, a breakdown of the Group's historic operational expenditure for its 2007 winter planting is outlined below together with management targets for the current crop, which was planted in 2008 where the majority of inputs have already been applied.

US\$/ha	2007 Planting	2008 Planting	Cost saving
Hectares planted	11,430	30,950	-
Cost of inputs (seed, chemical and fertiliser)	434	411	5%
Fuel	206	61	70%
Labour	219	73	67%
Harvesting/storage/drying/transportation	154	92	40%
Equipment maintenance	187	111	40%
Land & other	57	37	36%
Total cost per hectare	1,257	785	38%

Total staff costs which are allocated in direct costs and admin, excluding non-cash share based payments, totalled \$9.9 million.

Cost cutting has been a key focus for the management during the last few months of 2008 and will have a material impact upon the Group's performance in 2009. Staff costs in US\$ in May 2009 are 57% down compared to May 2008. The Board's aim over time is to have approximately 10 employees per 1,000 ha, lower than the current levels of 24 staff per 1,000 ha and much lower than the 34 per 1,000 ha at its peak in August 2008. The Group aims to reduce the 2008 administrative expenses of approximately \$15.8 million by at least a third in the current financial year, having started this process in Q4 2008.

Pre tax losses, excluding foreign exchange movement and share based payments, were \$48.7 million.

During the year, \$75.1 million was spent on operations. \$39.2 million was spent on the purchase of property, plant and equipment including farm equipment, expenditure on the Krasne drying and storage facility (\$7.5 million) and the purchase of 13 freehold farm bases. At the year end the Group had total fixed assets of \$48.3 million which equates to 24 cents per share.

During the course of the year \$21.7 million was raised from the issuance of new ordinary shares. In March 2009 the Group raised an additional \$6.8 million for working capital purposes.

At the end of 31 December 2008 net cash was \$4.2 million.

VAT has been a well publicised issue facing many companies operating in Ukraine. Due to the high level of investment in the business, Landkom quickly built up a large receivable of over \$10 million. At the year end, due to fluctuating exchange rates, the balance was \$9.0 million. Landkom has been working closely with the tax authorities and after a very thorough tax inspection lasting a number of months, has now achieved approval of the 2008 tax accounts. This is the first step towards a successful partial upfront payment of Landkom's VAT receivable. The Group plans to adopt a special agricultural VAT programme which effectively allows it to retain VAT receipts on sales.

In order to improve timeliness of financial reporting, Landkom is changing the accounting reference date to 31 October, a time when the harvest has been completed and a substantial part of the winter crop planted. This will best match the financial year to the annual farming cycle as well as bringing forward the reporting of the harvest results. The immediate impact of this will be a shortened 10 month period for the next audited results which will be published in Q1 2010. The interims will be published as expected during September 2009 for the six month period ending 30 June 2009.

As and when appropriate, the Board uses financial instruments such as forward off-take contracts or financial derivatives to hedge against OSR and wheat prices as part of its proactive and prudent management but not to speculate.

2008 saw the Ukrainian hryvna lose its peg against the US dollar. At the year end the hryvna had fallen 79% from the year high. A majority of the Group's revenues and crop inputs are correlated to the US\$. Local costs such as labour and land rent are hryvna denominated and as such US\$ costs have been reduced. Ukrainian legislation restricts the Group's ability to hedge its exposure to the hryvna and accordingly the Group does not hedge its exposure to this foreign currency risk.

## **Board Changes**

As in any fast growing business there have been a number of Board and senior management changes during the course of the year. Warwick Smith resigned as Finance Director in September 2008 and was succeeded by Stephen Pickup. Stephen has added a new dimension in driving cost cutting and cash management. With the reduction of emphasis on land acquisition, Konrad Nowicki has moved from Land Director to Managing Director Ukraine. The Executive team was supplemented in February 2009 with the important addition of Ben Adams to the Board as Farming Director.

Since the year end, Richard Spinks, the Chief Executive, has indicated to the Board that he intends to step down as Chief Executive of Landkom following this year's harvest and once a suitable replacement has been found. The Board has initiated the first steps to find a new Chief Executive. Richard has been the driving force behind the development of the business over the last few years but as it has matured, he believes that Landkom would benefit significantly from having a Chief Executive with greater experience of delivering second phase corporate growth. This, combined with

a personal wish to build a broader portfolio of interests in Ukraine, has led him to take the difficult decision to hand the business on in due course.

## **Current Trading and Outlook**

Despite the current economic environment, Landkom has already established itself as a very substantial operation with high quality infrastructure in one of the world's best regions for arable farming.

Landkom continues to reduce its cost base and to bring the costs of production down whilst maximising yield. The benefits of the new leaner cost structure will become increasingly apparent in 2009. In the current volatile environment the Group needs to ensure growth is controlled whilst continuing to take advantage of the exciting opportunities that exist in the market place.

The Group will continue to look at acquisition opportunities with complementary businesses but the current priority is to focus on the care of the crop in the ground and the harvest to generate the cash flow for next year's operations. At this stage of the year it is too early to forecast the planting plans for 2009/2010, but the Board currently expects that the amount of hectareage to be planted this autumn will not be substantially larger than the current levels.

In April 2009, SAC completed its winter crop audit giving a positive opinion stating that the crop had emerged from the winter in *'good condition with good weed control and crop health'*. Crop damage was lower than last year's already low levels of around 3% of crop impacted. This compares favourably to industry norms of around 5%. This is a testament to the agronomy and farming skills of our operational team and demonstrates the quality of both soils and climate in our operational area.

The Group is well set to carry out managed growth and the team is looking forward to implementing all the lessons learnt from the past 12 months and, weather permitting, delivering a successful harvest.

**LANDKOM INTERNATIONAL PLC  
CONSOLIDATED INCOME STATEMENT  
FOR THE YEAR ENDED 31 DECEMBER 2008**

	<b>Unaudited Year ended 31 December 2008 \$000</b>	<b>Audited 8 months ended 31 December 2007 \$000</b>
<b>Continuing operations</b>		
Revenue	10,645	1,567
(Losses) / gains arising from changes in value of biological assets	(11,036)	5,063
Direct costs	<u>(36,318)</u>	<u>(2,277)</u>
Gross (loss)/ profit	(36,709)	4,353
Distribution costs	(34)	(144)
Administrative expenses	(15,750)	(5,836)
Net foreign exchange losses	<u>(4,578)</u>	<u>(286)</u>
<b>Operating loss</b>	(57,071)	(1,913)
Finance income	1,875	606
Finance costs	(347)	(17)
Share of loss from associate	<u>(197)</u>	<u>-</u>
Loss before income tax	(55,740)	(1,324)
Income tax expense	<u>(236)</u>	<u>-</u>
<b>Loss for period</b>	<u>(55,976)</u>	<u>(1,324)</u>
Attributable to:		
Equity holders of the Company	(55,748)	(1,324)
Minority interests	<u>(228)</u>	<u>-</u>
	<u>(55,976)</u>	<u>(1,324)</u>
<b>Loss per share (expressed in US\$ per share)</b>		
Basic loss per ordinary share	(28.2)c	(1.3)c
Restated in pence per share	<u>(19.5)p</u>	<u>(0.6)p</u>
Fully diluted loss per ordinary share	(28.2)c	(1.3)c
Restated in pence per share	<u>(19.5)p</u>	<u>(0.6)p</u>

**LANDKOM INTERNATIONAL PLC  
CONSOLIDATED BALANCE SHEET  
FOR THE YEAR ENDED 31 DECEMBER 2008**

	<b>Unaudited 2008 \$000</b>	<b>Audited 2007 \$000</b>
<b>Asset</b>		
<b>Non-current assets</b>		
Property, plant & equipment	48,337	13,346
Intangible assets	280	169
Investment in associates	95	-
Available for sale investments	117	-
	<hr/>	<hr/>
	48,829	13,515
	<hr/>	<hr/>
<b>Current Assets</b>		
Biological assets	13,358	7,302
Inventories	7,267	1,271
Trade and other receivables	11,124	7,070
Derivative financial instruments	-	34
Cash and cash equivalents	4,230	87,646
	<hr/>	<hr/>
	35,979	103,323
	<hr/>	<hr/>
<b>Total Assets</b>	<hr/> <b>84,808</b> <hr/>	<hr/> <b>116,838</b> <hr/>
<b>Equity</b>		
<b>Capital and reserves attributable to equity holders of the Company</b>		
Share capital	411	389
Share premium	137,814	116,998
Retained loss	(57,072)	(1,324)
Share based payments reserve	2,754	335
Foreign exchange reserve	(7,894)	(3,315)
	<hr/>	<hr/>
Total equity attributable to equity holders	76,013	113,083
Minority interest	77	-
	<hr/>	<hr/>
<b>Total Equity</b>	<hr/> <b>76,090</b> <hr/>	<hr/> <b>113,083</b> <hr/>
<b>Liabilities</b>		
<b>Non-current liabilities</b>		
Other financial liabilities	156	125
	<hr/>	<hr/>
	156	125
	<hr/>	<hr/>
<b>Current liabilities</b>		
Trade and other payables	7,716	3,567
Other financial liabilities	846	63
	<hr/>	<hr/>
	8,562	3,630
	<hr/>	<hr/>
Total liabilities	<hr/> <b>8,718</b> <hr/>	<hr/> <b>3,755</b> <hr/>
Total Liabilities and Shareholders Equity	<hr/> <b>84,808</b> <hr/>	<hr/> <b>116,838</b> <hr/>

**LANDKOM INTERNATIONAL PLC  
CONSOLIDATED CASHFLOW STATEMENT  
FOR THE YEAR ENDED 31 DECEMBER 2008**

	<b>Unaudited Year ended 31 December 2008 \$000</b>	<b>Audited 8 months ended 31 December 2007 \$000</b>
<b>Cash flows from operating activities</b>		
Loss before tax	(55,740)	(1,324)
<b>Adjustment for:</b>		
Depreciation and amortisation	4,916	487
Loss on disposal of property, plant and equipment	127	-
Share based payment charge	2,419	335
Provision on receivable	153	-
Share of loss in associate	197	-
Effect of foreign exchange variances	(2,916)	
<b>Fair value adjustment recognised in the income statement:</b>		
Biological asset	11,036	(5,063)
Commodity derivatives	34	(34)
<b>Non operating activity income / expense recognised in income statement:</b>		
Finance income	(1,875)	(606)
Finance costs	218	17
<b>Movements in working capital:</b>		
Increase in inventories	(5,996)	(1,271)
Increase in receivables	(3,856)	(7,070)
Increase in trade and other payables	4,148	3,755
Income tax expense	(236)	-
Net additions to biological assets	(17,094)	(2,239)
Net cash used in operations	(64,465)	(13,013)
<b>Cash flows from investing activities</b>		
Purchase of property, plant and equipment	(39,227)	(14,317)
Purchase of intangible assets	(201)	(170)
Interest received	1,875	606
Finance costs	(176)	(17)
Gain / (loss) on realisation of currency options	(42)	-
Loans to associated companies	(172)	-
Investment in associated companies	(293)	-
Purchase of investments available for sale	(117)	-
<b>Net cash used in investing activities</b>	(38,353)	(13,898)
<b>Cash flows from financing activities</b>		
Proceeds from issue of ordinary shares	21,697	125,315
Payment of transaction costs	(860)	(7,928)
Minority interest investment into Group	128	-
<b>Net cash received from financing activities</b>	20,965	117,387
<b>Net (decrease) / increase in cash and cash equivalents</b>	(81,853)	90,476
Cash & cash equivalent at beginning of period	87,646	-
Effect of foreign exchange variances	(1,563)	(2,830)
<b>Cash and cash equivalents at end of period</b>	4,230	87,646

**LANDKOM INTERNATIONAL PLC**  
**CONSOLIDATED STATEMENT OF CHANGES OF EQUITY**  
**FOR THE YEAR ENDED 31 DECEMBER 2008**

	Share Capital	Share Premium	Foreign exchange reserve	Share based payments reserve	Retained earnings	Total equity attributable to shareholders of parent	Minority interest	Total Equity
<b>Balance at 10 April 2007</b>	-	-	-	-	-	-	-	-
Loss for the period	-	-	-	-	(1,324)	(1,324)	-	(1,324)
Currency translation differences	-	-	(3,315)	-	-	(3,315)	-	(3,315)
<b>Total recognised income and expense</b>	-	-	(3,315)	-	(1,324)	(4,639)	-	(4,639)
Proceeds from shares issued	389	-	-	-	-	389	-	389
Premium from shares issued	-	124,926	-	-	-	124,926	-	124,926
Share based payments charge	-	-	-	335	-	335	-	335
Share issue costs	-	(7,928)	-	-	-	(7,928)	-	(7,928)
<b>Balance at 31 December 2007 (audited)</b>	389	116,998	(3,315)	335	(1,324)	113,083	-	113,083
Loss for the period	-	-	-	-	(55,748)	(55,748)	(228)	(55,976)
Currency translation differences	-	-	(4,579)	-	-	(4,579)	-	(4,579)
<b>Total recognised income and expense</b>	-	-	(4,579)	-	(55,748)	(60,327)	(228)	(60,555)
Minority interest on asset acquisition	-	-	-	-	-	-	25	25
Minority interest share of shares issued in subsidiary	-	-	-	-	-	-	280	280
Proceeds from shares issued	22	-	-	-	-	22	-	22
Premium from shares issued	-	21,676	-	-	-	21,676	-	21,676
Share based payments charge	-	-	-	2,419	-	2,419	-	2,419
Share issue costs	-	(860)	-	-	-	(860)	-	(860)
<b>Balance at 31 December 2008 (unaudited)</b>	411	137,814	(7,894)	2,754	(57,072)	76,013	77	76,090

## **LANDKOM INTERNATIONAL PLC**

### **NOTES TO THE PRELIMINARY ANNOUNCEMENT**

#### **BASIS OF PREPARATION OF THE PRELIMINARY ANNOUNCEMENT**

The financial information for the year ended 31 December 2008 has not been audited and does not constitute the Company's non-statutory financial statements. This preliminary announcement was approved by the Board on 1 May 2009.

The non-statutory financial statements for the year ended 31 December 2008 have not been reported on by the Company's auditors. They will be circulated to the shareholders in May 2009 and the Annual General Meeting is arranged to take place in June 2009.

The comparative results for the year ended 31 December 2007 contained an unqualified audit report.

The non-statutory financial statements for the year ended 31 December 2008 will be prepared in accordance with International Financial Reporting Standards (IFRS) in issue and as adopted by the European Union (EU) that were effective at 31 December 2008.

The financial information has been prepared on the Going Concern basis. Management have carried out a detailed analysis of the Group's cash requirements until the point at which harvest revenues are expected to be realised, and believe the Group has sufficient cash resources to continue as a Going Concern. Management have a full expectation that the biological asset will yield sufficient revenues to allow the Group to continue as a Going Concern for the foreseeable future. Should the Group be affected by destruction or severe damage to the biological asset through adverse weather, natural disaster or any other means, then the Going Concern basis may not be appropriate. It is anticipated that the audit opinion on the final financial statements will include an emphasis of matter in regard to this issue of going concern.

The accounting policies are consistent with those used in the 2007 financial statements except that the following additional policies have been adopted in 2008.

#### **CONSOLIDATION**

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company (its subsidiaries) made up to 31 December each year. Control is achieved where the Company has the power to govern the financial and operating policies of an investee entity so as to obtain benefits from its activities.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring the accounting policies used into line with those used by the Group.

All intra-group transactions, balances, income and expenses are eliminated on consolidation.

Where subsidiaries have been acquired in order to gain control of assets, the transaction is considered to have been entered into at the fair value of the consideration paid and is accounted for as an asset purchase. Any excess cost over the book value of assets acquired is considered a fair value adjustment to the assets acquired. Where the cost of acquisition is below the book value of the assets acquired, the excess is accounted for as a provision against the relevant assets.

#### **ASSOCIATES**

Associates are entities over which the Group has significant influence. Significant influence is the power to participate in the financial and operating policies of an entity, but is not control or joint control over those policies.

An investment in an associate is accounted for in the financial statements by the equity method of accounting and is initially recognised at cost. Identifiable assets, liabilities and contingent liabilities of the associate in an acquisition are measured at their fair values at the acquisition date.

The Group's share of its associates' post-acquisition profits or losses is recognised in the income statement, and its share of post-acquisition movements in reserves is recognised in reserves. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. When the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate.

## **AVAILABLE FOR SALE INVESTMENTS**

Available for sale investments are non derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless management intends to dispose of the assets within 12 months of the balance sheet date.

Regular purchases and sales of investments are recognised on trade date – the date on which the group commits to purchase or sell the asset. Investments are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit and loss. Financial assets carried at fair value through profit or loss are initially recognised at fair value, and transaction costs are expensed in the income statement. Investments are derecognised when the rights to receive cash flows from investments have expired or have been transferred and the Group had transferred substantially all risks and rewards of ownership. Available for sale financial assets and financial assets at fair value through profit or loss are subsequently carried at fair value. Loans and receivables are carried at amortised cost using the effective interest method.

When securities classified as available for sale are sold or impaired the accumulated fair value adjustments recognised in equity are included in the income statement as gains and losses from investment securities. Interest on available for sale securities calculated using the effective interest method is recognised in the income statement. Dividends on available for sale equity instruments are recognised in the income statement when the Group's right to receive payments is established. The fair values of quoted investments are based on current bid prices. If the market for the financial investment is not active (and for unlisted securities) the Group establishes fair value using valuation techniques. These include the use of recent arms length transactions, reference to other instruments that are substantially the same, discounted cash flow analysis, and option pricing models making maximum use of market inputs and relying as little as possible on entity specific inputs.

The Group assesses at each balance sheet date whether there is objective evidence that a financial asset or group of financial assets is impaired. In the case of equity securities classified as available for sale a significant or prolonged decline in the fair value in the security below its cost is considered an indicator that the securities are impaired. If any such evidence exists for available for sale financial assets, the cumulative loss measured as the difference between the acquisition cost and the current fair value, less any impairment cost on the financial asset previously recognised in profit or loss – is removed from equity and recognised in the income statement. Impairment losses recognised in the income statement on equity instruments are not reversed through the income statement.

## EARNINGS PER ORDINARY SHARE

Adjusted basic and fully diluted loss per share have been calculated on the loss after taxation for the period and the weighted average number of ordinary shares in issue during the period.

Adjusted loss per share before amortisation of intangible assets and share based payments charge has been presented in addition to the basic earnings per share since, in the opinion of the Directors, this provides shareholders with a more appropriate representation of the underlying earnings derived from the Group's businesses.

	<b>Unaudited 2008 Number of shares</b>	<b>Audited 2007 Number of shares</b>
Weighted average number of shares in issue	197,736,743	101,037,387
	<b>\$000</b>	<b>\$000</b>
Loss after tax on ordinary activities	(55,748)	(1,324)
Adjustments:		
Amortisation of intangible assets	50	1
Share based payments charge	2,419	335
Adjusted (loss) / earnings	<u>(53,279)</u>	<u>(988)</u>
Basic & fully diluted loss per ordinary share (US\$)	<u>(0.282)</u>	<u>(0.013)</u>
Adjusted basic loss per ordinary share (US\$)	<u>(0.269)</u>	<u>(0.010)</u>

## PROPERTY PLANT AND EQUIPMENT

	Land	Buildings	Vehicles & machinery	Assets under construction	Furniture, fittings & equipment	Total
	\$000	\$000	\$000	\$000	\$000	\$000
<b>Cost</b>						
At 10 April 2007	-	-	-	-	-	-
Additions	-	67	13,429	707	114	14,317
Exchange loss	-	-	(484)	-	-	(484)
<b>At 31 December 2007 (audited)</b>	<b>-</b>	<b>67</b>	<b>12,945</b>	<b>707</b>	<b>114</b>	<b>13,833</b>
Corporate asset acquisitions	-	454	420	-	1	875
Effect of exchange rate movements	-	-	(32)	-	(2)	(34)
Additions	79	2,823	27,075	8,777	412	39,166
Transfers	-	1,248	-	(1,248)	-	-
Disposals	-	(80)	(124)	-	(4)	(208)
<b>At 31 December 2008 (unaudited)</b>	<b>79</b>	<b>4,512</b>	<b>40,284</b>	<b>8,236</b>	<b>521</b>	<b>53,632</b>
<b>Accumulated depreciation</b>						
At 10 April 2007	-	-	-	-	-	-
Depreciation charge	-	3	395	-	89	487
<b>At 31 December 2007 (audited)</b>	<b>-</b>	<b>3</b>	<b>395</b>	<b>-</b>	<b>89</b>	<b>487</b>
Effect of exchange rate movements	-	-	26	-	-	26
Depreciation charge	-	133	4,626	-	107	4,866
Disposals	-	(36)	(45)	-	(3)	(84)
<b>At 31 December 2008 (unaudited)</b>	<b>-</b>	<b>100</b>	<b>5,002</b>	<b>-</b>	<b>193</b>	<b>5,295</b>
<b>Net Book Value:</b>						
31 December 2008 (unaudited)	<b>79</b>	<b>4,412</b>	<b>35,282</b>	<b>8,236</b>	<b>328</b>	<b>48,337</b>
31 December 2007 (audited)	<b>-</b>	<b>64</b>	<b>12,550</b>	<b>707</b>	<b>25</b>	<b>13,346</b>

Depreciation expense of \$187,000 has been charged to administrative expenses (2007: \$97,000), and \$4,679,000 to cost of sales (2007: \$390,000).

During the year the Group acquired four entities for the purpose of gaining control over the assets within those entities. The fixed assets acquired have been accounted for at the consideration paid representing the fair value of the assets acquired.

Included in the net book value amount in respect of assets held under finance leases and similar hire purchase contracts are the following.

**Vehicles & machinery**  
**\$000**

**Net book value:**

31 December 2008 (unaudited)	1,388
31 December 2007 (audited)	266

**Depreciation charge in the period for these assets were:**

31 December 2008 (unaudited)	130
31 December 2007 (audited)	3

**INVESTMENT IN ASSOCIATES**

	<b>Unaudited 2008 \$000</b>	<b>Audited 2007 \$000</b>
Aggregate amounts relating to associates		
Total assets	927	-
Total liabilities	1,103	-
Revenue	1,098	-
Loss in year	(631)	-
Post acquisition loss	(252)	-
	<hr/>	<hr/>
Cost of investment	293	-
Share of post-acquisition loss	(197)	-
	<hr/>	<hr/>
Carrying value at 31 December	<b>95</b>	-
	<hr/>	<hr/>

Details of the companies associates at 31 December 2008 are as follows

<b>Name of associate</b>	<b>Place of incorporation</b>	<b>Proportion of ownership interest</b>	<b>Proportion of voting power held</b>	<b>Principle activity</b>
Podilya Kolodno LLC	Ukraine	50%	50%	Farm activities
Dokychaevskyy Cooperative	Ukraine	89%	0%	Farm activities

The Group does not have voting control over Dokychaevskyy Cooperative, and therefore, does not account for it as a subsidiary.

## AVAILABLE FOR SALE INVESTMENTS

	Unaudited 2008 \$000	Audited 2007 \$000
Available for sale investments		
At start of period	-	-
Additions	117	-
	<hr/>	<hr/>
<b>At 31 December</b>	<b>117</b>	<b>-</b>
	<hr/>	<hr/>

Investments represent the Groups 46% holding in Nadbuganskyy JSC. The investment is held at historic cost as there is no quoted market price or active market to measure fair value. The Board have assessed the asset for impairment and consider there are no grounds for impairment at this time. Management do not class the investment as an associate as they are not able to exert significant influence over the company.

## BIOLOGICAL ASSETS

The Group's interests in biological assets are held in its Ukraine subsidiaries.

The majority of the Group's biological assets are consumable winter crops that have been planted during the autumn and will be harvested during the following summer. Crops are accounted for at fair value less estimated point of sale costs.

The fair value of biological assets at each reporting date is determined based on the area planted and market prices at the reporting date, and based on the crops' location and condition, which includes estimates of biological transformation and yield potential.

Fair value is estimated on the basis of the present value of expected net cash flows, discounted at an appropriate risk adjusted pre-tax discount rate. Changes in any estimates could lead to recognition of significant fair value changes in the income statement.

Other biological assets represent a small herd of cattle, which were acquired through asset acquisitions. Cattle are accounted for at fair value less estimated point of sale costs. The fair value of cattle is determined by the size of the herd and market prices at the reporting date.

	Cattle \$000	Crops \$000	Total \$000
Carrying value at 10 April 2007	-	-	-
Cultivation costs relating to 2007/2008 crops to December 2007	-	2,239	2,239
Fair value adjustment	-	5,063	5,063
<b>Carrying value at 31 December 2007 (audited)</b>	<b>-</b>	<b>7,302</b>	<b>7,302</b>
Biological assets acquired through asset acquisitions	12	-	12
Other biological asset additions	37	-	37
Cultivation costs relating to 2007/2008 crops	-	17,644	17,644
Net change in fair value due to price, yield, maturity and cost changes	-	(11,104)	(11,104)
Total 2007/2008 crop Biological asset	49	13,842	13,891
Harvest of biological assets and transfer to inventory	-	(13,842)	(13,842)
Cultivation costs relating to 2008/2009 crops	-	13,241	13,241
Net change in fair value	-	68	68
<b>Carrying value at 31 December 2008 (unaudited)</b>	<b>49</b>	<b>13,309</b>	<b>13,358</b>
Net change in fair value of biological assets for the year ended 31 December 2008	-	(11,036)	(11,036)

During the period the Group harvested the following produce:

	Winter Wheat	Oil Seed Rape	Spring Wheat
Quantity of produce / MT (in field)	19,707	19,572	5,974
Area of land harvested (Ha)	5,227	6,203	5,893
Yield	3.77	3.16	1.01

## INVENTORIES

	Unaudited 2008 \$000	Audited 2007 \$000
Raw materials	5,579	1,253
Finished goods	1,688	-
Work in progress	-	18
	<b>7,267</b>	<b>1,271</b>

Raw materials consist of spare parts for property plant and equipment, agricultural chemicals, fertilisers.

Finished goods consist of harvested agricultural produce.

The value of inventory charged to the income statement during the year amounts to \$17,369,000 for the year ended 31 December 2008 (2007: \$2,277,000).

#### TRADE AND OTHER RECEIVABLES

	<b>Unaudited 2008 \$000</b>	<b>Audited 2007 \$000</b>
Trade receivables	390	2
Prepayments	850	2,751
Receivables from related parties	-	1,787
VAT recoverable	8,951	1,944
Other receivables	933	586
	<hr/>	<hr/>
	11,124	7,070
	<hr/>	<hr/>

The carrying amounts of the Group's trade and other receivables are denominated in the following currencies:

	<b>Unaudited 2008 \$000</b>	<b>Audited 2007 \$000</b>
Pounds Sterling	556	240
Ukrainian Hryvna	10,568	6,830
	<hr/>	<hr/>
	11,124	7,070
	<hr/>	<hr/>

The maximum exposure to credit risk at the reporting date is the fair value of each class of receivable mentioned above. The Group does not hold any collateral as security.

The Directors consider that the carrying amount of trade receivables approximates to their fair values and no provision for trade receivables has been made at either year end. Trade receivables at the balance sheet date are mainly aged less than 90 days. None of the trade receivables are past their normal due dates.

## **CALLED UP SHARE CAPITAL**

The total authorised share capital of the Company as at the reporting date is as follows:

	<b>Unaudited 2008 Ordinary shares</b>	<b>Audited 2007 Ordinary shares</b>
Number of shares of £0.001 each:		
Authorised	500,000,000	500,000,000
Allotted and fully paid	200,008,935	189,208,629
	\$000	\$000
Allotted and fully paid ordinary shares of £0.001 each	411	389

The issued share capital has been increased as follows:

<b>Date</b>	<b>Class</b>	<b>Number of shares</b>	<b>Issue price</b>	<b>Share capital \$000</b>
20 April 2007	A	50,862,500	0.1p	103
20 April 2007	B	34,500,000	20.0p	72
22 November 2007		103,846,129	52.0p	214
18 March 2008		10,800,306	100.0p	22
		200,008,935		411

Upon listing the A and B class shares were converted to ordinary shares.

## **SHARE PREMIUM ACCOUNT**

	<b>Unaudited 2008 \$000</b>	<b>Audited 2007 \$000</b>
At start of period	116,998	-
Premium on shares issued during the period	21,676	124,926
Share issue costs	(860)	(7,928)
	137,814	116,998

## TRADE AND OTHER PAYABLES

	<b>Unaudited 2008 \$000</b>	<b>Audited 2007 \$000</b>
Trade payables	6,412	1,814
Amounts due to related parties	-	1,483
Employee liabilities	258	-
Social security and other taxes	169	2
Accrued expenses	761	268
Other payables	116	-
	7,716	3,567

The Directors consider that the carrying amount of trade payables approximates to their fair value.

Trade payables become due as follows:

	<b>Unaudited 2008 \$000</b>	<b>Audited 2007 \$000</b>
1 -3 months	4,764	1,389
3 - 6 months	993	331
Over 6 months	655	94

## CORPORATE ASSET AQUISITIONS

The subsidiaries included in these financial statements are as follows:

	<b>Country of incorporation</b>	<b>Activity</b>	<b>Percentage of ownership</b>
<b><i>Held at 31 December 2007:</i></b>			
Charmaine Investments Ltd	Cyprus	Holding company	100.00%
LK Ukraine Group Ltd	Ukraine	Farm operations	99.99%
Landkom UA Ltd	Ukraine	Land ownership	100.00%
Landkom Services Ltd	England & Wales	Admin services	100.00%
<b><i>Acquired or formed during the year:</i></b>			
Bio Invest LLC	Ukraine	Farm operations	90.00%
Radalan land LLC	Ukraine	Farm operations	90.00%
Velych LLC	Ukraine	Farm operations	80.00%
Kozatskyi Kurin' LK LLC	Ukraine	Farm operations	80.00%
Druzbha LLC	Ukraine	Farm operations	99.60%
Landkom Krym	Ukraine	Holding company	100.00%
Yasnaya Polyana	Ukraine	Farm operations	88.77%
Romaniv Agro LLC	Ukraine	Farm operations	100.00%
Dobrosyn LLC	Ukraine	Farm operations	100.00%
Nazalezhnist PP	Ukraine	Farm operations	100.00%
Landkom Ukraine PP	Ukraine	Land ownership	100.00%

The Group acquired the net assets of Landkom Ukraine PP on 11 January 2008 (an entity previously under the control of key management personnel - Richard Spinks) for nominal consideration of UAH 1. Landkom Ukraine PP revenue and loss after interest and tax from the date of acquisition to 31 December 2008 was \$4,095 and \$2,491,483 respectively.

The Group has made a number of acquisitions during the year. In the view of the Directors the entities acquired do not satisfy the definition of a business as defined by IFRS 3 and consequently these acquisitions have been treated as asset purchases and are included in property, plant and equipment at cost to the group.