



Operational restructuring of AgroGeneration:

Partial asset liquidation procedure opened

Paris, October 7th, 2022

AgroGeneration, a Ukraine based grain and oilseed producer, is starting a restructuring process within the Group aimed to carve out those assets and infrastructure of the Group, which became “toxic”, as their value strongly decreased, on the back of the full-scale Russian invasion of Ukraine started on February 24, 2022.

Background and Rationale for the Toxic Assets Liquidation

At the date of this release, around 25k hectares of the Group’s farmlands with fixed assets and related production infrastructure on mentioned farmlands are considered by Management to be “toxic”, as their value strongly decreased, being (i) destroyed or damaged on the back of military activities, (ii) located near the frontlines with no access to them and inability to use such assets (including extensive mining), (iii) assets, for which the Company incurs expenses or increases liabilities but is unable to use such assets. “Toxic” assets include agricultural equipment, fixed assets and real estate, inventory and land assets. Four production farms out of six comprising the Group currently have such “toxic” assets with different amounts of asset loss

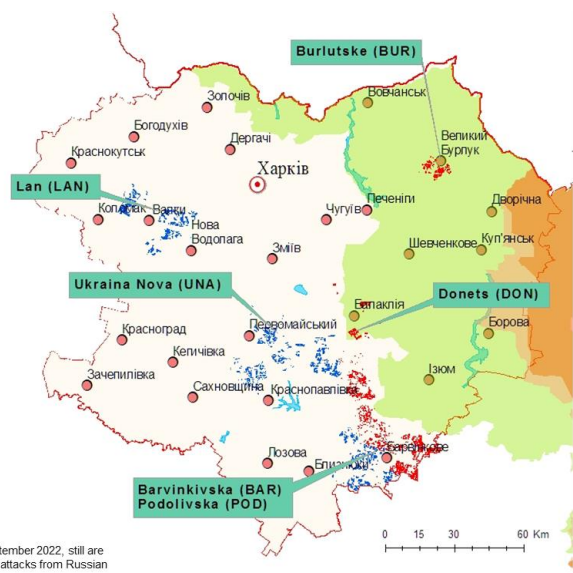
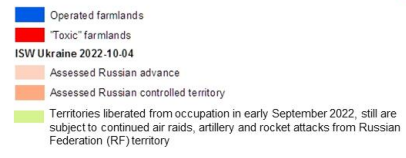
Donets farm’s lands (7.5k hectares), even though liberated from occupation in early September 2022, remain in the category of “toxic” farmlands, as the production bases and almost all fixed assets of this farm were completely destroyed over the course of war. Almost 40% of the production bases and equipment of Barvinkivska (9.1k hectares) and Podolivska (5.4k hectares) farms were also destroyed or damaged already at the beginning of war.

In total, over 22k hectares of farmlands, incl. Podolivska, Barvinkivska, and Donets farmlands, were at the epicenter of hostilities for over 6 months and were brought to a state completely unsuitable for processing during the next 2-3 years. These lands are saturated with minefields and just randomly scattered unexploded shells and mines and require de-mining, which will take several years and significant cash injections. These fields were subject to explosions, the movement of military equipment, and the construction of a huge number of trenches and defensive buildings. Thus, they require re-cultivation, which is also a time consuming and expensive process. In addition, reduction of natural fertility of these lands on the back of damages to the black soil layer and toxic pollution by explosions are expected, which cannot be accurately estimated in monetary terms at the moment.





**AGRO
Generation**
Map of Operations



Over 45% of land assets of the Group cannot be operated and are considered to be “toxic”


- In **two farms** (Burlutske (BUR) and Donets (DON)) **all operations were suspended** due to temporary occupation by Russian Federation’s troops at the very beginning of war. Even though liberated in early September 2022, the lands cannot be operated due to damages, territories mining, and regular rocket and artillery attacks from RF territory
- **Two farms** (Podolivska (POD) and Barvinkivska (BAR)) are **partially operated** due to significant damages, fields mining, and continued rocket attacks in the location of the farms’ fields
- **Two farms**, Lan (LAN) and Ukraina Nova (UNA), are **operated close to the plan**

Sources: AgroGeneration, frontline data from Institute for the Study of War (ISW) as of 04.10.2022

Burlutske farm’s lands (3.3k hectares), being liberated in early September 2022, also remains in the category of “toxic” farmlands as it was located near the frontline. According to the available information (the area is currently closed by the Ukrainian military authorities, with none permitted on the territory), the farm’s production bases were looted, and almost all equipment was stolen. The Russian troops built a lot of engineering structures (trenches, checkpoints, artillery positions, etc.) in this area. In addition, the invaders were actively mining roads and fields in these zones in order to impede the advance of the Ukrainian army. The Group is unlikely to be able to cultivate this farm’s lands until the hostilities between Ukraine and the Russian Federation are completely over, as the Burlutske farm is located in the border zone (20-25 km from the border of the Russian Federation), thus with high certainty that it will be subject to daily rocket and artillery fire from the territory of the Russian Federation, as it happens in liberated Sumy or Chernihiv regions currently.

All in all, the described “toxic” assets are currently not operated by the Group and are not prepared to be operated during the coming production seasons. Still, the Company is required to continue accruing “toxic” farmlands lease cost, paying it or creating financial reserves for these obligations on annual basis (over \$2M per year, or over \$6M for the next three years). In addition, such farmlands require substantial expenses for their restoration, including cost of de-mining and re-cultivation, and capital expenditures into machinery and production infrastructure renewal. Following the de-occupation in the Kharkiv region in September 2022, the Management has been able to assess more accurately the total costs for maintenance (incl. land lease cost) and restoration of the “toxic” assets compared to the previous estimation made in June 2022 (please refer to the Group’s press release from June 16th, 2022): at over \$50M. Besides, existence of such “toxic” assets on the





Group's balance sheet creates a number of other issues, apart from huge expenses, including challenges in auditing these assets, resulting in serious difficulties in completing full company audit.

Following on the discussion that the Management had with the Ukrainian legal and financial advisors, the restructuring set forth below seems to be the sole option that the Group has at the moment, beside a massive injection of cash. The other option would be to wait on possible states' subsidies at the end of war, not under discussion yet.

Restructuring Plan Execution

In order to separate the Group's clean business from the "toxic" assets, the "toxic" assets that were initially recognized on the balance sheets of the Podolivska and Barvinkivska farms were transferred to newly created Barvinkivska Agro and Podolivska Agro companies together with all related obligations and responsibilities according to distribution balances in August-September 2022.

A tender for the selection of a liquidator company was conducted in September 2022. In early October 2022, the contract with the chosen liquidator company was signed with the following key terms and conditions agreed:

- The list of entities that are the subject to further liquidation includes Donets farm, Burlutske farm, newly created Barvinkivska Agro and Podolivska Agro companies.
- The purpose of the restructuring is to completely write off from the balance sheet of AgroGeneration and its affiliated companies assets, property, property rights and obligations, etc., which were damaged, lost or otherwise negatively affected after February 24, 2022 during the martial law as a result of the armed aggression of the Russian Federation.
- Expected term of liquidation procedure execution: 9 months (October 2022 – June 2023).
- From the moment of corporate rights alienation (the date of contract signing) to the liquidator company, AgroGeneration doesn't bear legal and financial responsibility for any obligations of the entities that are the subject to restructuring (including receivables and payables, contractual obligations and other obligations) regardless of the moment of their occurrence.
- Liabilities and costs: ≈\$1.1M to be paid to the liquidator company (in monthly installments) in equal amounts for the liquidation execution.
- Price for those "toxic" lands: \$0 as the companies will be liquidated.





Impact of Toxic Assets Liquidation on Group's Future Performance

Such a management step, launched restructuring of the Group, is primarily a matter of the Company's survival in the current military business environment. As a general outcome of the above-described operational restructuring, the Group will put its performance back on sound footing by getting rid of "toxic" assets and all related obligations to them, thus avoiding significant involuntary spending on non-performing assets (first of all land lease cost, which the Group has to bear even in case of non-operating of the farmlands).

From an operational standpoint, the business will be reduced to around 30,000 hectares of cultivated farmlands, with similar reduction in related assets and infrastructure. The head office of the Group will be also optimized in accordance with the new scope business. From a financial standpoint, the Group expects deterioration of its results in 2022 affected by losses already occurred in the first half of the year on the back of the Russian invasion of Ukraine, as was already noted in earlier releases, with gradual improvement in the Group's performance to be seen not earlier than by the end of 2023.

This expectation depends on the progress of war, which is still ongoing, and the company may need to adjust these forecast results. The group will keep the market informed on further significant changes in its activity. The next release is expected in late November with the disclosure of interim results of the Company accompanied with the latest update on current operations.

About AGROGENERATION

Founded in 2007, AgroGeneration is a large-scale producer of grain and oilseed. The company's core business is grains and oil commodity crop farming, operating near 60,000 hectares of high quality agricultural lands in the East of Ukraine.

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