

## **Report by the Chairman of the Board at FirstFarms' annual general meeting 24 April 2012**

Dear shareholders,

Welcome to FirstFarms' annual general meeting. I am pleased to see so many shareholders and interested parties in attendance here in Billund to hear about FirstFarms. We are a total of 109 present today.

### **The year 2011**

In 2011, FirstFarms has realised a turnover of DKK 129.3 million, an EBITDA result of DKK 35.4 million, an EBIT result of DKK 17.1 million and a pre-tax result of DKK 10.8 million.

The results corresponded to the expectations and are a significant improvement compared to 2010. Thus the EBIT result was improved by DKK 25.0 million and the pre-tax result was improved by DKK 22.7 million. This is an addition to a significant improvement from 2009 to 2010. Since 2009, the EBIT result has improved by DKK 53 million. A profit concerning sale of land of DKK 14 million was included in the 2009-figures, so it is actually an operational improvement of DKK 67 million since 2009.

For the first time, FirstFarms has realised an operating profit in the Group, and that is of course encouraging. We must continue the work of optimising the company's operation, but we have reached a significant piece of the way towards securing an effective operation.

After the large deficit in 2009, Per Villumsen was put in charge of carrying out a turnaround of the company. We are now so far in this process, that we are able to be more offensive again. We must look at expansions of the company, for which mergers with other Danish projects in Eastern Europe will be obvious. Initially, it will probably be particularly interesting in Slovakia and Romania where we already are represented.

Therefore, FirstFarms has appointed Anders H. Nørgaard as new CEO to spearhead FirstFarms in the more offensive role.

2011 was a year, where the plant production had very satisfactory results, whereas the milk production still not reached a satisfactory level.

In 2011, FirstFarms has realised very satisfactory yields from the plant production in both Slovakia and Romania.

The world market prices on crops have been high, and it has been an advantage for the company when selling our crops, whereas it has been more expensive to buy fodder etc. to our milk production. Furthermore, very high prices on energy have been seen in 2011. This applies to the

price on both electricity and diesel, i.e. we use approx. 1 million litre diesel in Slovakia, where removal of charge exemption for dyed diesel meant an additional cost of approx. DKK 1.5 million. It is many kg of milk that has to compensate this.

The milk production in Slovakia has not met our expectations. We still work on getting the production up on a satisfactory level.

It is encouraging that we in 2011 completed our new modern stables with room for 2,750 cows, and we have now the production facilities to ensure a good and steady milk production in the future.

In connection with the expansion, FirstFarms has bought cows from many different stocks in both Holland, Germany and Hungary. When expanding with new cows from different stocks, the disease pressure will be high for a period, and it is therefore difficult to get the production to increase fast.

Therefore, we can look forward to a limited purchase of cows in the future, and thus there is basis for the production to be able to increase in a gradual pace throughout 2012.

The problems with disease pressure is not alone the reason that the milk production has not reached a higher level, we have to admit that we have underestimated the running-in period when establishing one of the largest stocks of dairy cattle in Europe. We must ensure focus on stability and quality in handling the milk production. This focus area will have top priority, so FirstFarms can achieve higher revenue.

After the financial crisis made its entry, it has not been possible to obtain the required financing. This means on the contrary that we today have a very low interest-bearing debt. The interest-bearing debt at the end of 2011 is DKK 83 million corresponding to 24 percent of the equity and 16 percent of the balance sum.

In 2011, FirstFarms realised a positive cash flow from main activities of DKK 18.5 million and it is encouraging to see that the operation is generating liquidity.

### **Development in the agriculture in 2011**

The agricultural industry could detect a certain progress in 2011, where the settlement prices were better than the latest couple of years. Especially the price on crops has increased, but so has the price on milk and pork.

However, the high prices on crops have entailed that the prices on fodder and other adjuvant have increased significantly. The term of trade for milk is starting to be reasonable, whereas it by comparison has been difficult to get economy in the pig production in 2011.

In 2011, the agriculture in Denmark has still been under pressure by debt problems. This also involves other places in Europe, but in a significant lower extent.

It is my opinion that the agricultural industry is on an upward trend, but the agriculture in Denmark will in the coming years still be under pressure as a consequence of the debt burden and the hesitation from the banks in lending to the industry.

### **Risk management**

Agricultural operation is associated with a range of risks. The weather can have vital influence for the production, and also the terms of trade for agricultural products can have significant influence for the return when operating in agriculture.

Furthermore, there may be challenges with financing of the industry, which for the later years has impacted the picture abroad as well as in Denmark. Please refer to the company's annual report, for a closer description of the risks associated with operation of agricultural companies.

### **The FirstFarms share**

In 2011, the price on FirstFarms' share decreased with 23 percent. The total smallcap-index decreased with 34 percent.

Entering 2011, the price on FirstFarms' share was 60, while at the end of the year it was 46.20.

It is undesirable and unsatisfactory to see a negative trend in the company's share price, but the decrease in FirstFarms' share has however been lower than the overall decline in the smallcap-index, which FirstFarms is a part of.

The market value of FirstFarms' share was at the end of the year DKK 217.7 million. In 2011, the average share turnover was DKK 237,561 per business day. The turnover of the share is lower compared to the first years after FirstFarms was listed, but the share is still well positioned in turnover per business day in the smallcap-index.

### **Organisation**

After the outbreak of the financial crisis, FirstFarms has trimmed the organisation. This is a continuous process, but it is estimated that the main part of this work has been completed. As mentioned, the company has turned a very large deficit in 2009 to a profit in 2011.

There will still be focus on optimising the organisation, but in the future we will also have more focus on directing the company toward the objectives, the company set in connection with the stock exchange listing in 2006.

To strengthen the organisation to this process, the company has, as previously mentioned, appointed Anders H. Nørgaard as new CEO for the company.

Our present CEO Per Villumsen, who 2 years ago got the task to right the company's operation, continues to have the everyday responsibility for operation of the company's activities in Slovakia and Romania.

## **The future**

In 2012, FirstFarms expects to realise a profit on par with 2011

With the completed construction of stables, a better result for the cattle division is expected in 2012, whereas a lower result is expected in the field division. The lower result in the field division is due to an expectation of little lower yields in some crops, as especially Romania has had a difficult start due to a very dry autumn.

It is also expected that the settlement prices on crops will be on a little lower level than what was realised in 2011.

When I look at the company's future, it is necessary that we increase the volume of the company to service the costs associated with a set-up as a listed company.

With the present financial markets, it is my opinion that it is not possible to finance new projects in a satisfactory pace. On the contrary, I believe that there will be good possibilities for the company to grow through mergers with other Danish projects in Eastern Europe.

I have received a number of enquiries from other companies, with whom we must have a more specific exchange of opinions and content for a possible future cooperation.

We have on-going discussion with other companies having projects in Eastern Europe and we will come back when we have something more specific.

It is a condition for FirstFarms that a substantial part of the payment can be made through acquisition of debt and issuance of shares. In this way, the company can grow without having to provide new liquidity to a large extent, and the merging partner can become a part of a listed company, where the shares are continuously valuated, and where it is possible to trade the share on the stock exchange.

I also estimate that it will strengthen FirstFarms' share to let the company grow through mergers. It will provide a larger revenue base to cover our fixed costs, and it will give a larger volume in the trade with the share.

## **Conclusion**

Finally, I would like to thank the employees for their contribution to the turnaround, which the company has been through the last couple of years, and I would like to thank my colleagues in the Board for a good cooperation in 2011.

Of course, I will also thank the company's shareholders and other interested parties for the interest you are showing towards the company.

Thank you for your attention.