

ANNUAL REPORT 2011



**BLACK
EARTH
FARMING LTD.**

General Shareholder Information

Annual General Meeting

Black Earth Farming Ltd (“Black Earth Farming”) hereby invites shareholders to participate in the Annual General Meeting on Friday, 25 May 2012 at 9 a.m. at Näringslivets Hus, Storgatan 19 in Stockholm, Sweden.

Participation

Holders of Swedish Depositary Receipts (“SDRs”) wishing to attend the Annual General Meeting shall be recorded in the register of shareholders maintained by Euroclear on Friday, 18 May 2012, and must notify the Company of their intention to attend the Meeting no later than 1 p.m. on Friday, 18 May 2012. The holder of the Swedish Depositary Receipts shall state his name, personal or company identification number, address as well as telephone number.

Notice of participation

Holders of Swedish Depositary Receipts can give their notice of participation:

- by mail at the address:
Annual General Meeting,
Black Earth Farming Ltd,
c/o Computershare,
Box 610,
182 16 Danderyd
Sweden
- by telephone +46 (0)771 24 64 00
- by fax +46 (0)8 588 04 201
- by e-mail to agm@blackearthfarming.com

Nominee-registered shares

Holders of Swedish Depositary Receipts which hold their receipts through nominees (Sw. *förvaltare*) must request a temporary registration of the voting rights in order to be able to participate at the General Meeting. Holders of Swedish Depositary Receipts that want to obtain such registration must contact the nominee regarding this well in advance of 18 May 2012. Voting forms (Sw. *röstkort*) will be distributed to the holders that have complied with the above requirements and the voting form must be brought to the Annual General Meeting.

Proxies, etc.

If a holder of Swedish Depositary Receipts intends to be represented by proxy, the name of the proxy holder shall be stated. For holders of Swedish Depositary Receipts who will be represented by a proxy at the Meeting, a proxy form is available at the Company's website on www.blackearthfarming.com. The signed proxy form should be sent or mailed to the company at the above stated valid addresses.

Calendar of events in 2012

- 1Q Interim Report, 1 January–31 March: 21 May
- 2012 Annual General Meeting: 25 May
- 2Q Interim Report, 1 January–30 June: 24 August
- 3Q Interim Report, 1 January–30 September: 23 November

Investor Relations

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Internet website

www.blackearthfarming.com

SDR tickers

- NASDAQ OMX Stockholm: BEF SDB
- Reuters: BEFsdb.ST
- Bloomberg: BEFSDB SS

Disclaimer

This report contains “forward-looking statements”. All statements other than statements of historical facts included in this Presentation, including without limitation, those regarding the Company's financial position, business strategy, the Company's management's, or as appropriate the Directors', plans, objectives, goals, strategies and future operations and performance and the assumptions underlying these statements are forward-looking statements. Such forward-looking statements involve known and unknown risks and uncertainties and other factors which are or may be beyond our control, which may cause the actual results, performance or achievements of the Company, or industry results, to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. Such forward-looking statements are based on numerous assumptions regarding the Company's present and future business strategies and the environment in which the Company will operate in the future.

Supplementary USD* equivalent figures found in this report in relation to company financial information are provided solely for the convenience of users as described in Note 2(d) to the Consolidated Financial Statements and do not form part of the audited consolidated financial statements.

Some numerical figures included in this Presentation have been subject to rounding adjustments. Accordingly, numerical figures shown as totals in certain graphs or tables may not be an exact arithmetic aggregation of the figures that preceded them.

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Black Earth Farming at a Glance

• Business Concept



ACQUIRE



DEVELOP



FARM

- Extensive soil restoration process undertaken to transform long term fallow land into productive crop land
- Over 260,000 hectares brought out of fallow and currently in cultivation



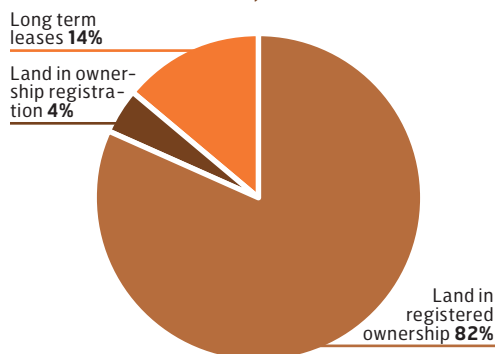
• 260,000 Hectares of World Class Farm Land in Full Ownership

- Total land bank of 318,000 hectares with 82% in full ownership
- Non depreciating asset recorded at acquisition cost of USD* 58.3 million in statement of financial position as of Dec 31, 2011

BEF: ONE OF THE LARGEST OWNERS OF PRIME RUSSIAN FARM LAND

D1: BEF 2011 Land holdings

Total land: 318,000 hectares



Comparison of Black Earth Farming's fully owned acreage with Hyde Park (London), Manhattan (New York), Hong Kong and Luxembourg

Hyde Park (London)	341 ha
Manhattan (New York)	5,900 ha
Hong Kong	110,400 ha
Luxembourg	258,600 ha
Black Earth Farming	260,000 ha



• Operating in Russia's Central "Black Earth" Region

- Agricultural region endowed with some of the most fertile soils in the world

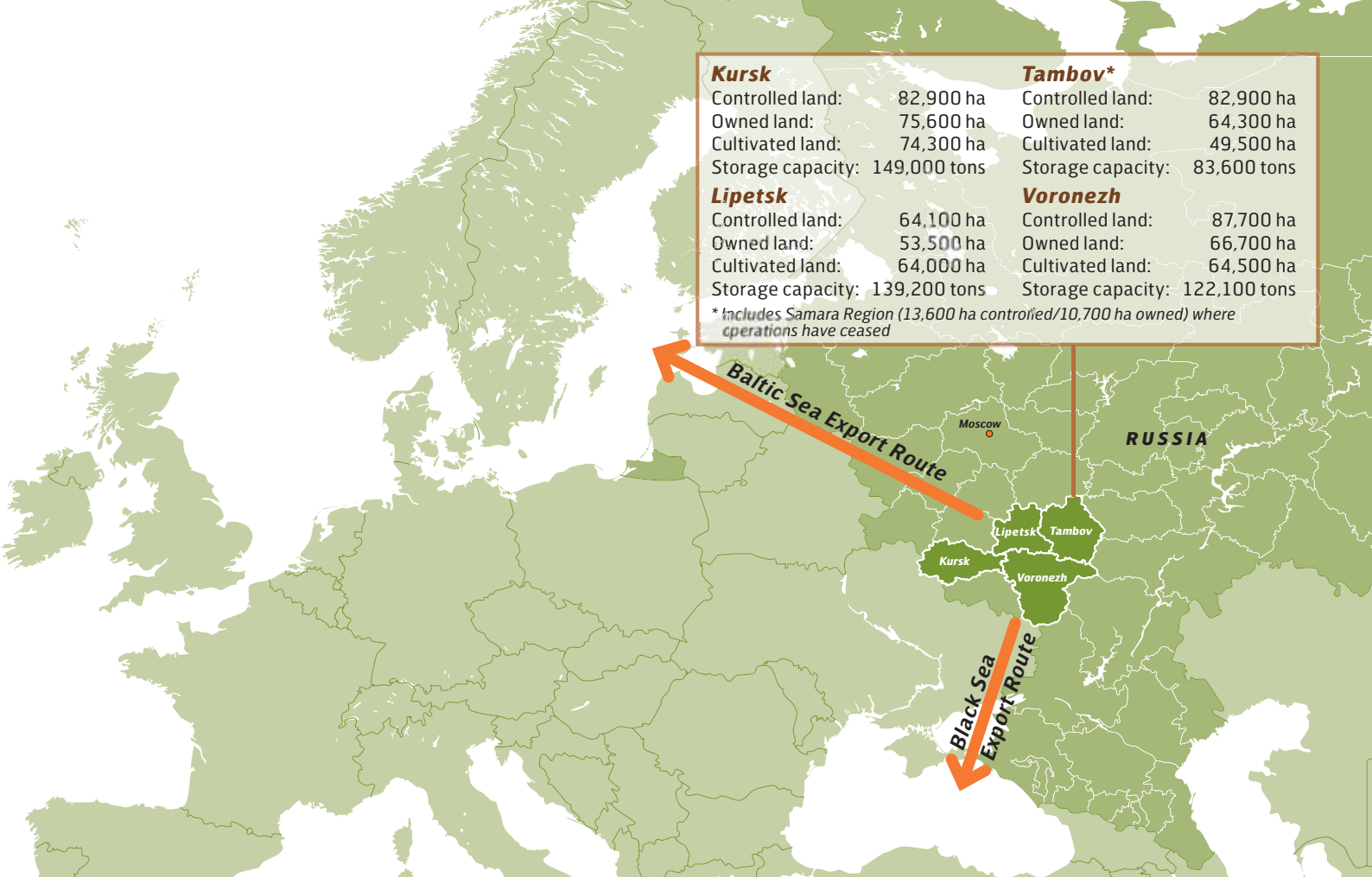


• Significant Investments into Machinery Fleet and Storage Infrastructure Undertaken

- Large state of the art machinery fleet
- 500,000 tons of storage capacity

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One of the Largest Russian Land Owners...

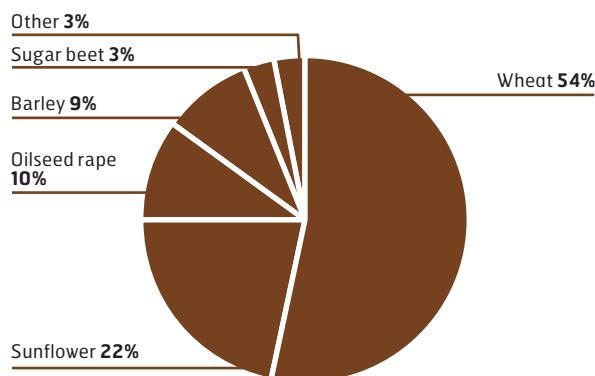


• Major Producer of Grains and Oilseeds

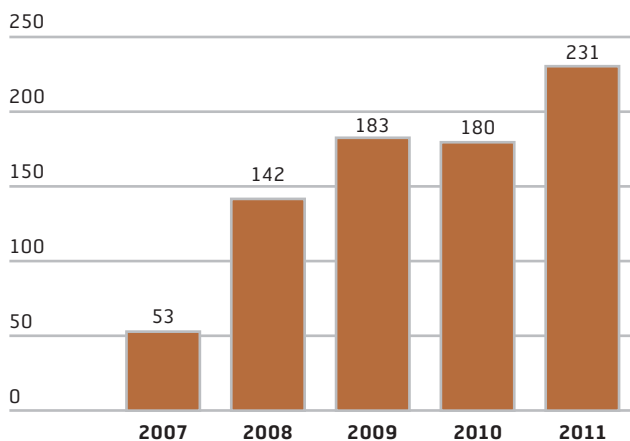
- 231,000 hectares harvested in 2011 under challenging conditions affecting crop yield and quality



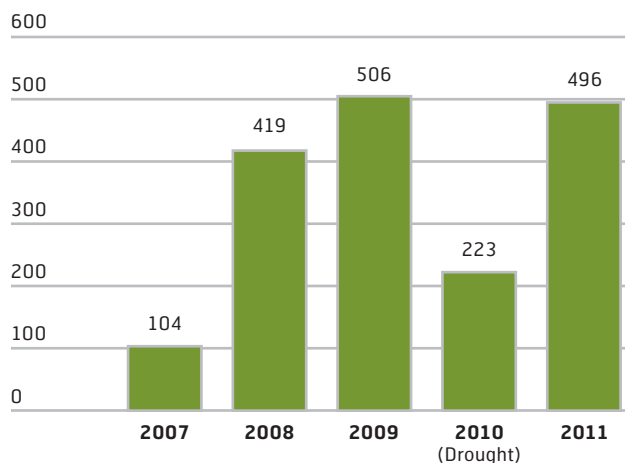
D2: 2011 Revenues by Crop



D3: Harvest Area, thousand hectares



D4: Commercial Harvest, thousand tons



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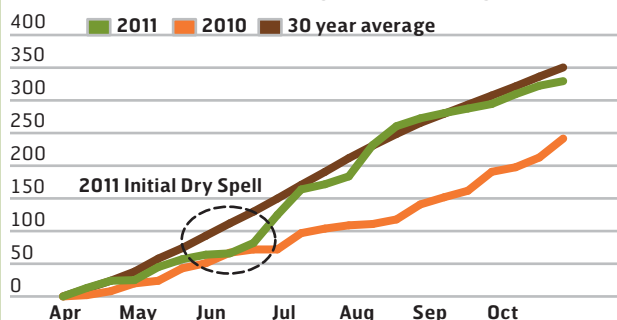
...Fully Focused on Raising Productivity and Profitability

2011 in Brief

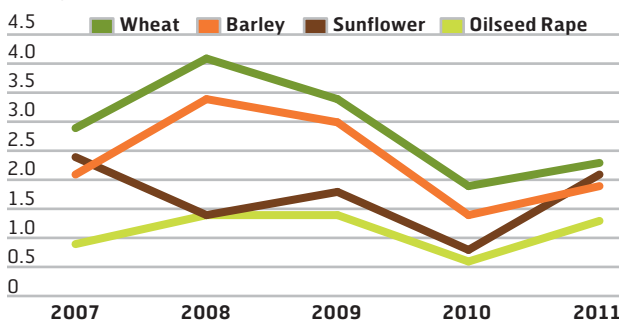
• Early Season Dry Spell Impedes Wheat, Barley & Rapeseed Yields

- Wheat & barley volumes 30–35% below 2007–09 average
- Sunflower & corn yields benefited from summer & autumn rainfall but with negative quality effects

D1: 2010 & 2011 April–October Average Cumulative Rainfall vs. 30 Year Average in BEF's Regions, mm



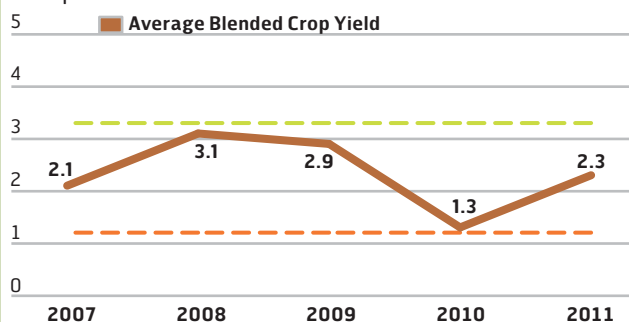
D2: 5 Year Yield Development per Crop, tons per hectare



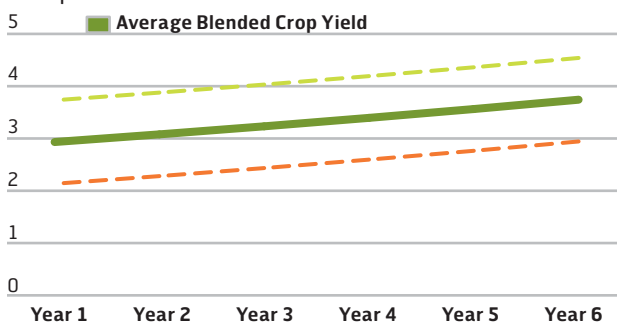
• 5 Key Initiatives Underway to Lift Future Crop Yield Potential

- New technical agronomy partner incorporated
- Full audit of historical crop decision making processes undertaken
- 2–3 year process to correct soil pH, alleviate soil compaction, weed control, fertilizer application and internal seed management (see page 25 for more details)

D3: Historic Gross Crop Yields, tons per hectare



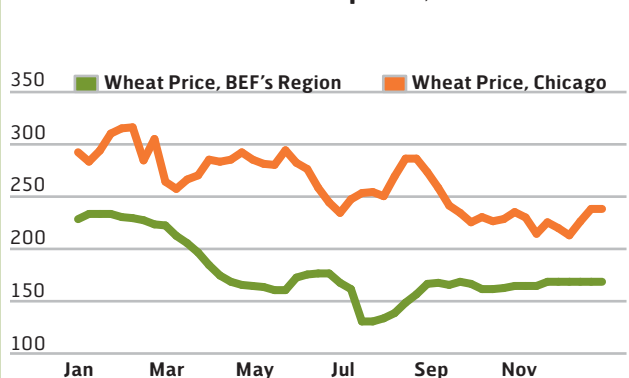
D4: Targeted Crop Yield Development, tons per hectare



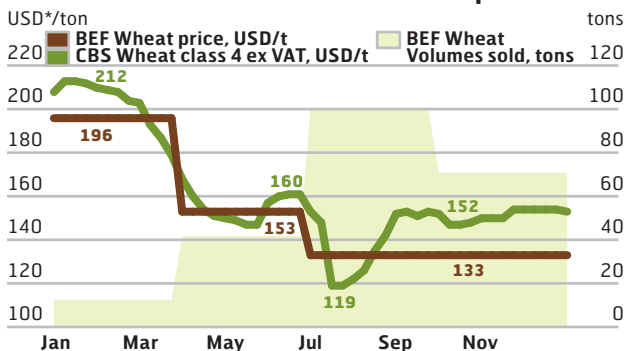
• International and Russian Agricultural Commodity Prices Decline

- Reduced market prices as global and Russian 2011 harvest volumes normalize from 2010
- BEF sold 33 thousand tons of wheat for export before domestic rail car shortage halted shipments
- Poor BEF crop quality deterred realised crop prices during 2H 2011

D5: 2011 Wheat Price Development, USD*/ton



D6: BEF 2011 Quarterly Average Realised Wheat Price & Sales Volume vs. Market Development



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• New Operationally Focused Management Team

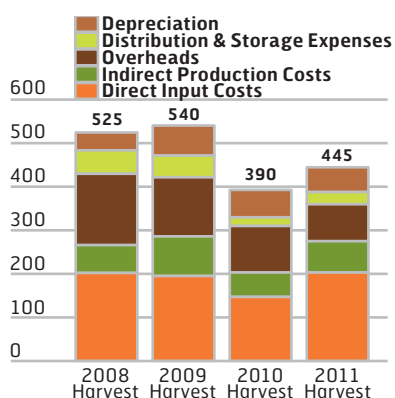
– Revamp at both mid and senior level

• BEF Operating Cost Trends vs. Realised Price per Harvest Year¹

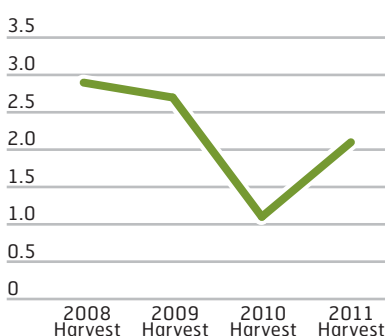
- 2011 direct input costs normalize post 2010 drought
- Overhead costs trending down
- Crop yield development crucial to reduce operating cost per ton

D7: Total Operating Cost per Ton (Operating Cost per Hectare divided by Average Blended Crop Yield)

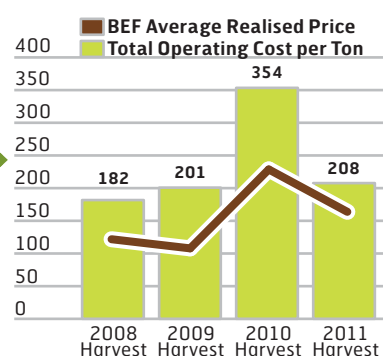
Total Operating Cost per Hectare,
USD*/hectare



Average Blended Net Crop Yield,
tons/hectare



Total Operating Cost per Ton vs. BEF Average Realised Price, USD*/ton



1. Harvest year differs from calendar year as crops are seeded in autumn and spring and harvested the following summer and autumn with sales undertaken up until the next harvest.

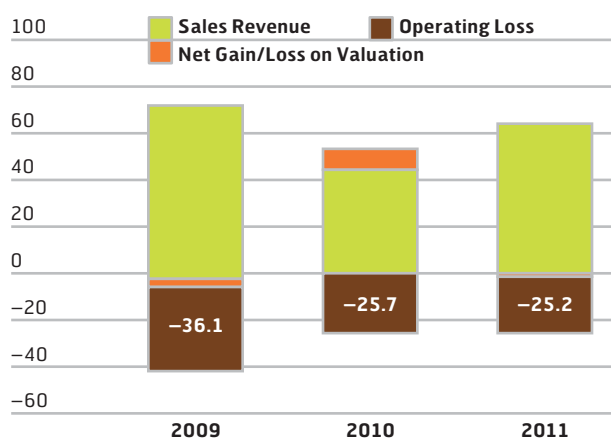
• Disappointing 2011 (Operating Loss of USD* 25.3 million)

- Higher volumes lift 2011 revenue but with higher direct input costs
- Negative effect of early dry spell and poor quality limiting volumes and price
- New accounting policy (mark to market of inventory) increases gross margin sensitivity to market price development

Summarized Income Statement

USD* million	2009	2010	2011
Sales Revenue	74.4	44.4	64.2
Total Revenue & Gains	70.9	59.9	77.6
Cost of Sales	-71.9	-51.1	-72.4
Gross Result	-1.0	8.8	5.2
General & Administrative Expenses	-26.4	-20.5	-20.4
Distribution Expenses	-9.4	-4.4	-8.4
Other Net Operating Expenses	0.7	-9.6	-1.6
EBIT	-36.1	-25.7	-25.2
EBITDA	-24.8	-6.9	-12.3
Net Financial Expenses	-4.5	-12.6	-15.2
Taxes	0.4	1.9	-1.2
Net Income	-40.1	-36.4	-41.7

D8: 2008–2011 Revenue & Operating Result, USD* million



• Proposal of no dividend for 2011

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CEO Statement



Disappointing 2011 but Strategy in Place to Turn Around Performance

Since joining the Black Earth Farming board in 2010, the main focus has been to consolidate and improve operational performance. The main challenge is lifting our crop yields, which have underperformed during the past few years, to ultimately lower the cost per ton and become profitable. Although it sounds very simple this involves getting many critical underlying aspects right in order to achieve that goal.

The potential in the Russian farming sector remains evident for all to see. The critical resource, high quality farmland, can be acquired at a relatively low investment by international standards albeit with additional capital required for machinery and storage infrastructure to enable proper farming operations. Although the climate means crop yield levels are lower than say Western Europe and the risks are higher, costs per hectare are also proportionally lower meaning Russia should be globally competitive in cereals and oilseeds. The well documented strong underlying fundamentals driving long term crop prices, apply to all farmers wherever they are in the world. Exploiting Russia's competitive advantages in the end comes down to operational execution and the ability to handle the various infrastructure challenges that exist, some of which we can control and influence, some we can't. We cannot hide from the fact

that Black Earth Farming has underachieved in this area, although weather has also played its part in the poor results of the past 2 years. We have taken significant steps during 2011 to address these issues.

New Operationally Focused Management Team

The asset base of land, machinery and storage that the company has acquired and built up is of high quality but we now need to exploit through improved operational performance. In order to achieve this it was evident that we needed to strengthen management at all levels of the business. Fraser Scott and Alexander Betsky joined during the second half of 2011 as COO and CFO respectively. We have also hired two additional regional directors and further unit managers in order to reduce the number of hectares a single manager is responsible for. A Technical Director has also joined to support the production teams with the implementation and execution of these changes. The second critical aspect together with crop yield is crop price and being able to manage crop price volatility. We recruited Richard Willows as sales & marketing director who has given us valuable expertise and capabilities in this area. We need to bring in additional personnel in logistics and storage to get this area right going forward.

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2011 Performance Analysis

The 2011 result is of course highly disappointing to us. What I intend to do is detail out the various factors that have contributed to this result, attribute what is down to external factors such as weather and markets and what is down to factors that were within our control. I will then turn to what this means for the business, what we intend to do to correct poor performance and appraise recent plans in the light of this.

Low Wheat, Barley & Rape Yields Caused by Dry Spell

The harvest suffered from a dry spell during late spring and early summer which affected the early harvest grain yields negatively. The rainfall graph for our regions in diagram D1 (below) shows a 2010 rainfall pattern until the end of June. Wheat yields at 2.4 and 1.7 tons per hectare for winter and spring varieties respectively and a barley yield of 1.9 tons per hectare were significantly below expectations. Wheat and barley yields were 30–35% below the average yields achieved during normal conditions in 2007–09 which corresponds to circa USD* 20 million in foregone revenues at the prices realised during 2H 2011.

Wet Autumn Harvesting Conditions

After mid July we then experienced heavy rains for the duration of the main harvest period and into late autumn. This resulted in difficult and wet harvesting conditions that, although boosting sunflower and corn yields, caused delays and resulted in crops being harvested at very high moisture levels. This caused higher than normal costs for drying as well as reducing net sellable volumes further. We still had 1,200 hectares of sunflowers standing over winter which we expect to harvest in spring 2012 although at a significantly reduced crop value.

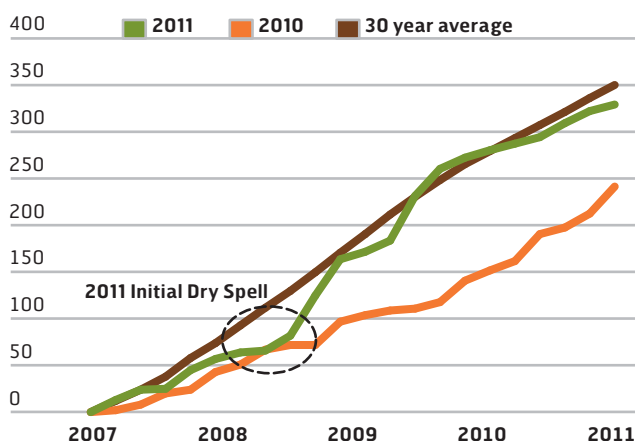
Low Crop Quality Reducing Price

The adverse harvest weather also impacted on crop quality. When the rain came in July the un-harvested crops sprouted in the ears thus losing milling and malting quality, which meant that only 40% of wheat volumes is class 3 milling wheat in 2011 versus 60% in 2010. The late and wet harvest also put additional strains on harvest and storage logistics, where storage turnover was already limited by the non-delivery of rail wagons and construction over runs, causing further deterioration of general crop quality post harvest. The proportion of wheat and barley below feed quality, ranged between 20–35% for wheat and barley volumes respectively. This has led to price discounts of 20–35 USD* per ton for these crops, a further USD* 2 million of lost revenue. In addition the high moisture levels for corn and sunflower meant that the realisable value declined by 50 USD* per ton, over USD* 5 million in total for a large amount of volumes.

Harvest & Storage Logistics

This was also the first year of handling and storing 100% of a decent sized harvest internally and significant commissioning problems were encountered. These included external factors such as delays in obtaining permits to unload crops from one elevator and the non-delivery of contracted rail cars limiting storage turnover. A reticence to release sales at lower prices to the domestic market and a decision to temporarily store crop outside proved costly and created internal bottlenecks with drying, handling and storage logistics. The lack of rail cars to access export markets and contracts meant foregone export sales on 130 thousand tons of wheat and rape that would have generated a net 25 USD* per ton margin or USD* 3.5 million. The problems with clearing enough space and drying the high volumes of wet crops to acceptable lev-

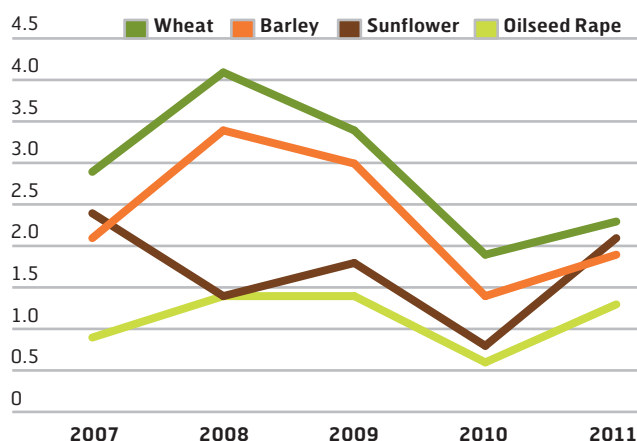
D1: 2010 & 2011 April–October Average Cumulative Rainfall vs. 30 Year Average in BEF's Regions, mm



Source: USDA, WMO

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D2: 5 Year Yield Development per Crop, tons per hectare



els quickly caused deterioration of some crops post harvest which ultimately necessitated discounted sales at prices of USD*35 per ton below market, another USD* 1.1 million negative effect on revenue. We can blame external factors but my personal estimate is that 10–20% of this USD* 30 million in total income foregone, was within management's control and avoidable if all aspects had been planned and executed better. It goes without saying that this is a key focus for our 2012 planning. A full review of elevator build, design and operating efficiency as well as overall harvest logistics is being undertaken to improve operations in this area going forward.

FY 2011 Results

The fact that our operating loss for 2011 is of the same magnitude as in 2010 is of course highly disappointing. As highlighted above there are several driving factors, both external and internal, affecting crop yield and price that have limited 2011 revenue by over USD*30 million in total on our estimates. Although total revenues of USD* 77.7 million are up 29% from 2010 due to increased volumes, market prices for realized sales and inventory valuation of 2011 crop are lower. Diagram D3 provides some detail on a harvest year basis as our calendar year financial reporting mixes the sales and costs of two harvest years. Sales of 2010 crop during calendar year 2011 affected the 2011 P&L negatively by approximately USD* 6 million, as market prices peaked in January 2011 and declined thereafter. Production costs for 2011 crop are also higher as direct input prices and costs are up. *Our operating result per hectare for the 2011 harvest is, although not satisfactory, better than all previous harvest years.* Revenue per hectare is close to 2008 levels when yields were higher but prices lower. 2011 Operating costs per hectare are up y-o-y but the severe drought that impacted the 2010 harvest makes it an abnormal reference point, as some inputs were scaled back and volume driven costs were lower. Indirect costs and overheads that are not correlated to crop yield are trending lower and remain under review for future cost reductions. The key to improving our future results will however be on the revenue side.

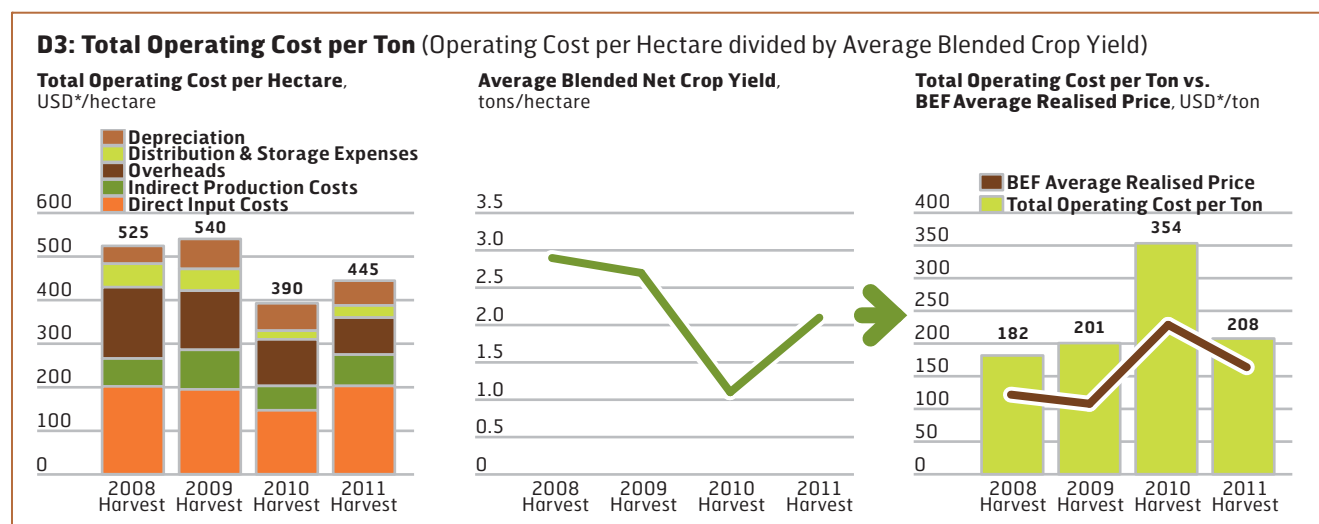
Crop Management Initiatives & 2012 Crop

Consistently raising crop yields is the single biggest challenge facing the business because it is very multi-faceted and trends have not been encouraging. At the start of 2011 we engaged a new technical partner and completed a thorough audit of our historic crop production decision making processes. The result outlined a number of priority initiatives including correcting soil pH and soil compaction, improving weed control, applying more of certain fertilizers and improving internal seed management techniques. Progress has been made during the autumn of 2011 as over 200 thousand hectares were treated with glyphosate to control bindweed while lime applications have been made to 12 thousand hectares where pH levels have been low. Corrective cultivations have also been performed on 37 thousand hectares in order to remove soil compaction. Whilst the impacts of fertilizers, weed control and better seed management will significantly benefit 2012 crops it will take a couple more years before pH and soil structure are fully addressed as the field work can only be performed in between crops. Please see p. 25 for a more in depth discussion of the initiatives.

T2: Revenue and Result per Hectare (Harvest Year¹)

	2008	2009	2010	2011
Average Net Crop Yield, tons (sold) /ha	2.88	2.69	1.11	2.12
Average Realised Price, USD*/ton	122	108	229	164
Revenue per Hectare, USD*/ha	351	292	254	347
EBITDA per Hectare, USD*/ha	–132	–180	–76	–40
EBIT per Hectare, USD*/ha	–173	–249	–139	–98

1. Harvest year differs from calendar year as crops are seeded in autumn and spring and harvested the following summer and autumn with sales undertaken up until the next harvest.



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Direct costs will increase as a result but the potential returns on the above expenditures are very high given the sensitivity of revenue and profits to crop yield. Going forward as the various constraints to yield are removed, the probability of better yields increases and the likelihood of poorer yields decreases, so the business should steadily become better performing. This will of course not leave us immune to the affects of weather but it should raise the crop yield potential to a higher level, so that we are not as negatively affected by unfavorable weather in the future. I believe there is significant potential to raise our performance but some of the constraints will take time to correct fully and to execute effectively requires training from senior management to operators and simplification of our organisational structures.

The moist autumn conditions in 2011 allowed our winter crops to be well established. The majority of the 82 thousand hectares of winter wheat had reasonable snow cover albeit the cover in one of our regions has been at the lower limits. Although it is too early to identify any potential loss of crops our view is that the winter to date in the central Black Earth Region is not as extreme as elsewhere in Eastern Europe.

Strategy Going Forward

We have prioritized our efforts on the initiatives underway to lift crop yield by totally revamping top and mid level management within production and bringing in a new technical partner. This aspect has the single highest effect on our bot-

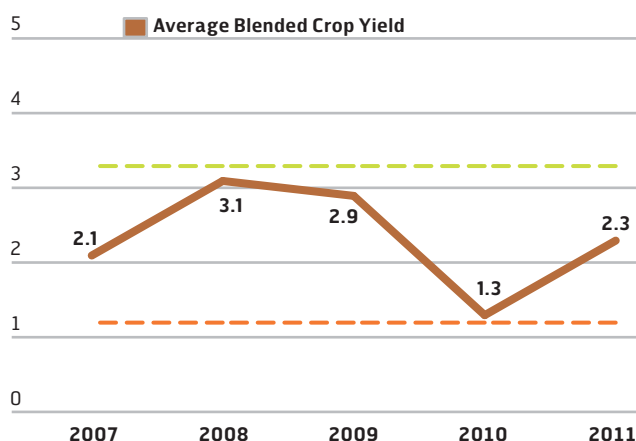
tom line. Our efforts to improve marketing and risk management, whilst frustrated this year by the railcar shortage in Russia, also remain a critical part of the turnaround strategy. We have sold some 60 thousand tons of 2012 crop forward, mainly malting barley as well as some sunflower and rapeseeds. We are also actively working on establishing partnerships with quality counterparties to improve price risk management. Nothing in the recent results suggests that these aspects of our strategy are in any way flawed or inconsistent with what we have to do to deliver better results. We do however have to learn tough lessons from the 2011 harvest and our management of execution and logistics in particular will become a key focus for improvement.

The end target is very simple; lower the cost per ton to increase the potential of being highly profitable in a favorable year whilst staying profitable in a bad year. With an almost completely new management team put in place in the latter part of 2011, the process of improving our performance has begun. There is no getting away from the fact that this sort of business requires experienced management with a deep and detailed understanding of how the business operates. Whilst we now have a better platform than ever before to build upon it will take some time to fine tune. I repeat again that this company has a high quality asset base of significant fundamental value and I believe that we now have realistic and viable plans as well as the management team in place to start improving operational performance and unlock that value.

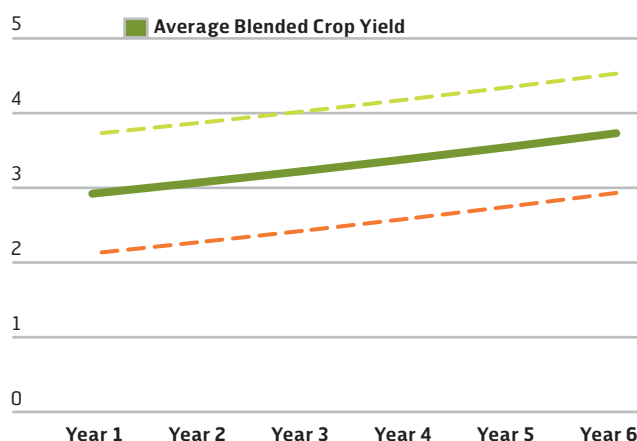
On behalf of the Board

Richard Warburton
CEO and President
Black Earth Farming Ltd
11 April 2012

D4: Historic Gross Crop Yields,
tons per hectare



D5: Targeted Crop Yield Development,
tons per hectare



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This is Black Earth Farming

Black Earth Farming (“BEF”) was established in 2005 and was among the first foreign-financed companies that undertook considerable investments in the Russian agricultural sector. Because of its early establishment, the Company holds ownership of an impressive land bank of first class soil in several Russian regions and is a major producer of grains and oilseeds. The Company’s focus is now on increasing productivity from its current asset base to become the best-in-class agro industrial company in terms of costs and operating efficiency. As of 31 December 2011 BEF has 318,000 hectares under control of which 82% is fully owned with over 230,000 hectares cropped.

Land Ownership

Agricultural land in Russia is usually comprised of a number of farm lots and can be classified as state, municipal or private property. With the reorganization of the Russian Kolkhozes or collective farms, the former employees obtained a part of the agricultural land in common. Black Earth Farming’s approach has mainly been directed towards acquisition of privatized collective farms owned by a group of natural persons. Freehold ownership of land plots and lease rights are held via several different Russian subsidiaries, all of which are 100% controlled by Black Earth Farming.

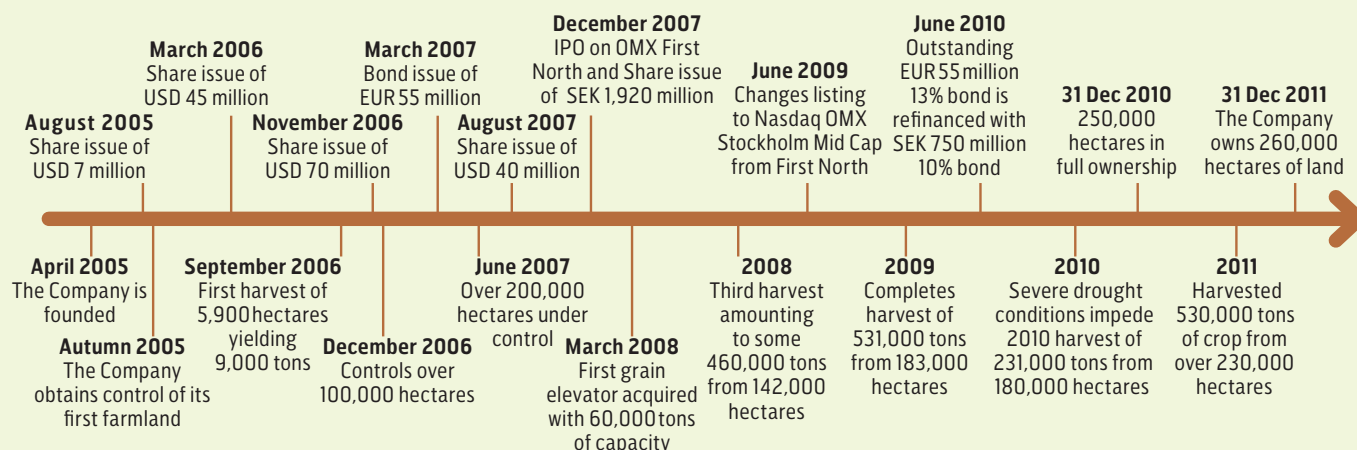
The current focus is not on significant expansion of the land portfolio, but on finalizing the registration process of controlled land into full ownership status and improving productivity of the current land bank.

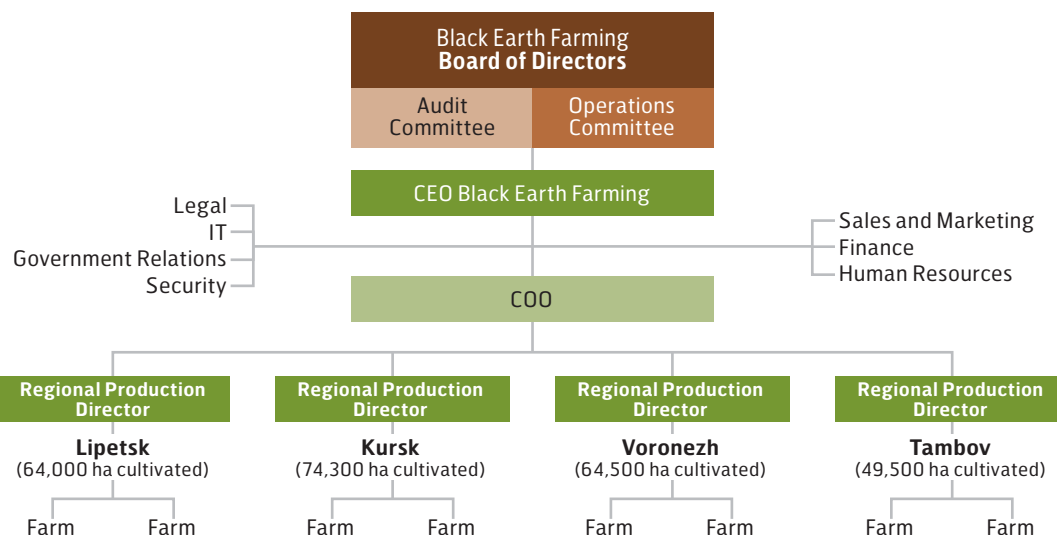
Russian agricultural land is in the Company’s view still undervalued, both in terms of comparison with land of similar quality in other countries and also in relation to its inherent production potential, especially in the fertile Black Earth Region.

Crop Production

The farmland acquired had been laying fallow for many years and could not be planted immediately. The Company first had to take extensive actions to restore and improve the condition of the land. The methodology which is extensive and resource consuming includes several steps such as disc tilling and field levelling. When the fallow has been broken and the fields have been restored to cropping condition, the focus shifts to raising yields and implementing operational economies of scale. The climatic zone in the central Black Earth Region in Russia where the company operates allows for one harvest each year during July through October depending on crop. Different seasonal classes of crops such as winter and spring crops are used to spread the planting and preparation periods, as well as harvesting work.

Black Earth Farming Mile Stones





Organisation

The Black Earth Farming Group consists of the parent Company: Black Earth Farming Limited, a limited liability company incorporated in Jersey, Channel Islands, on 20 April 2005. Black Earth Farming Limited is the holding company for a number of legal entities established under the legislation of Cyprus and the Russian Federation. Those entities together are referred to as the Black Earth Farming “Group”. The organization of Russian subsidiaries goes by the joint name of Agro-Invest headquartered in Moscow from where the Group runs its activities. Black Earth Farming had a total of 1,816 employees as at 31 December 2011 while the average number of employees for 12 months 2011 was 1,829.

History

Black Earth Farming was established in 2005 and was among the first foreign-financed companies that undertook considerable investments into the Russian agricultural sector. The Company has gained a strong market position in the regions of Kursk, Tambov, Lipetsk and Voronezh regions in the central “Black Earth” area of Russia.

During the first years the Company was mainly focused on acquiring and obtaining full free hold ownership to agricultural land. In 2006 Black Earth Farming received its first fully registered land ownership certificates which was a sig-

nificant milestone as it confirmed that the land acquisition process was consistent with Russian legislation and worked in practice. Black Earth Farming is now at the final stage in the process of registering land into ownership and is focused on raising the productivity of the current asset base. Any potential further land acquisitions will target plots within close proximity to existing land masses. As of 31 December 2011 Black Earth Farming controlled 318,000 hectares of land, corresponding to an area about the size of Luxembourg, with 260,000 hectares in full free hold ownership.

The Company raised initial funding from the family backed Swedish investment companies Vostok Nafta and Kinnevik who remain key long term shareholders. Following several private placements and a bond issue to fund the expansion of the Company’s land bank, BEF successfully completed an IPO on 28 December 2007. Shares were listed in the form of Swedish Depository Receipts, on the OMX First North exchange in Stockholm and raised SEK 1,920 million, approximately USD 250 million. On 22 June 2009 the Company changed listing to NASDAQ OMX Stockholm where the shares are currently listed under the ticker BEF SDB. Significant investments in a large modern western machinery fleet and storage infrastructure have been undertaken since then to expand the area under production as well as to secure internal storage and grain handling capacity.





Business concept

Black Earth Farming's business concept is to acquire, develop and farm agricultural land assets in Russia, primarily in the Black Earth Region and secondarily in other regions endowed with fertile agricultural land.

Vision

Black Earth Farming seeks to create shareholder value by developing a critical land mass and generate robust profitability in one of the largest developing agricultural markets in the world, with the long term vision to develop into a leading vertically integrated and diversified agricultural companies.

Strategy

BEF's initial strategy has been on acquiring and securing ownership of a vast land area as well as investing in supporting machinery and storage infrastructure for crop production. With a strong asset base secured the focus is now firmly on lifting the operating performance, namely improving crop yields with the ultimate target of lowering the cost per ton of production to world-class standards. This includes;

Control over land: The Company takes every measure to ensure that the acquisition process of land is closely monitored and in compliance with all the relevant legislation. Land that is geographically close to existing production clusters as well as the existence of general supporting infrastructure and local customer base is evaluated. Currently the focus is on finalizing the process of registering land into ownership and consolidation.

Economies of scale: To create logistic efficiencies and other synergies the Company has formed and consolidated sev-

eral production clusters within its controlled land, each being governed by professional management with support from the central organization. The central organization coordinates investments and purchases of seed, fertilizers and other inputs to benefit from scale discounts. The cluster model optimizes the utilisation of management resources since the production clusters consist of consolidated land areas.

Best practice/technology: Black Earth Farming seeks to significantly increase productivity by introducing modern agricultural farming practices. The Company hires internationally-experienced expertise and adopts efficient farming methods supported by western technology and science. An exclusive partnership with a technical agronomic business is retained to utilize the best advice on all aspects of soil management, crop variety selection, crop nutrition and crop protection. This includes securing and examining data, either from trials or published and unpublished sources, as well as the training and education of staff to ensure proper implementation.

BEF's Business Model



Land Ownership

Land Ownership

A key part of the initial strategy has been to secure ownership rights to the critical producing asset: high quality farmland. Black Earth Farming holds 260 thousand hectares of land in full ownership, 82% of the total controlled land bank of 318 thousand hectares, at acquisition cost of USD* 58.3 million in total. The land investment per hectare is low by international standards and to the inherent production potential. Recent Russian farm land transactions suggest that there is potential for appreciating land values in BEF's regions. The current near term focus is however not on significant expansion of the land portfolio, but on improving crop production and finalizing the land registration process.

Input/Machinery Procurement

Input/Machinery Procurement

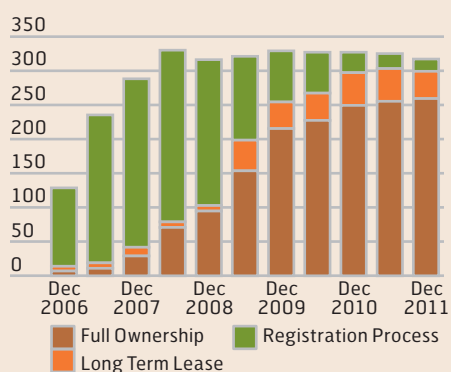
Each production cluster is supported from the central organization in terms of procurement of the major input items as well as expenditures on equipment and maintenance. The central organization coordinates investments and purchases to benefit from scale discounts and terms. The industries in each sub-category of major inputs are generally highly consolidated with a limited number of suppliers thus the company has limited power to influence purchasing prices for e.g. fertilizers and fuel.

Field Works and Harvesting

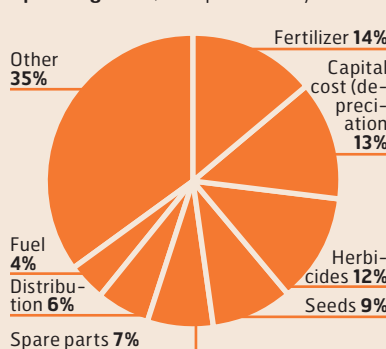
Field Works and Harvesting

Black Earth Farming's crop production is focused on applying western farming techniques and management with the aim of generating high yields of good quality at low costs given certain external conditions such as soil quality and climatic zone. The choice of which specific crops to grow is mostly governed by operational factors such as crop rotation needs, maximum usage of machinery, weather and climatic conditions as well as harvest and seeding periods. Improving crop yield performance is a key focus area going forward which includes several key initiatives. Logistics is also very important as seasonal timeframes when cultivation, planting, harvesting and other field works needs to be executed is limited.

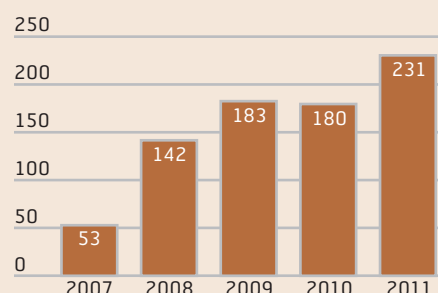
D1: 2007–2011 Land Development, thousand hectares



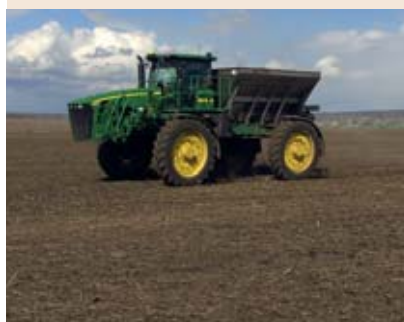
D2: Major Input Costs as % of Total Operating Costs, 2011 production year



D3: Crop Area, thousand hectares



D4: Blended Average Crop Yield, tons per hectare



Revenue drivers

- Right amount and quality of inputs are crucial factors affecting crop yields
- Crop mix for planted area
- Quality of inputs affecting crop quality and price per ton

Cost drivers

- Fertilizer, seeds, herbicides and fuel are major cost components
- Capital costs (depreciation) as the Company owns a large machinery fleet

- Harvest area
- Crop yield (weather)
- Crop yield (timely and optimal input application and decision making)

- Application rate of inputs
- Capital costs (efficient machinery utilization)
- Fuel

* The USD equivalent figures are provided for information purposes only and do not form part of the consolidated financial statements – refer to note 2 (d).



Crop Handling and Storage Logistics

Crop Handling and Storage Logistics

After the crop has been harvested, it is transported to storage and drying facilities such as elevators. The logistics involved in crop handling and storage is critical to minimize quality issues as well as to prolong the harvest period. The Russian agricultural sector suffers from a deficit of agricultural infrastructure such as elevator storage capacity. Furthermore, crop prices fluctuate with weather conditions and Russian domestic prices tend to be at their lowest during the harvest season as farmers without access to storage facilities must sell their grain immediately, thereby substantially increasing supply.



Sales and Marketing

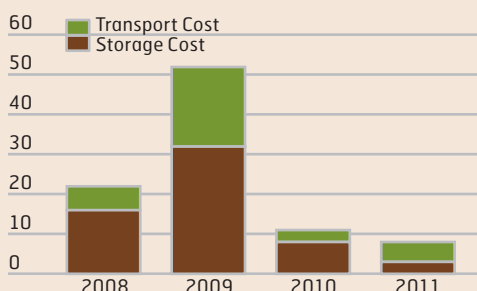
Sales and Marketing

Black Earth Farming has previously sold the vast majority of its products domestically in Russia. The list of customers however, varies from local breweries and oil crushers to large international grain traders. In general sales have been conducted on an ex-works basis, i.e. the buyer collects at the Company's farm gate. With the ramp up of elevator capacity, all with direct rail access, Black Earth Farming can improve the price per ton received. Contract terms including loading, transport and delivery to buyer can be included in the price as well as providing access to export markets. This is crucial not only for selling at higher prices but also for managing price risk via forward sales, given the general lack of a domestic forward/futures market due to the low trust among counterparties. It will also enable consolidation of larger volumes of crops with specific qualities enabling participation in larger and better priced contracts.

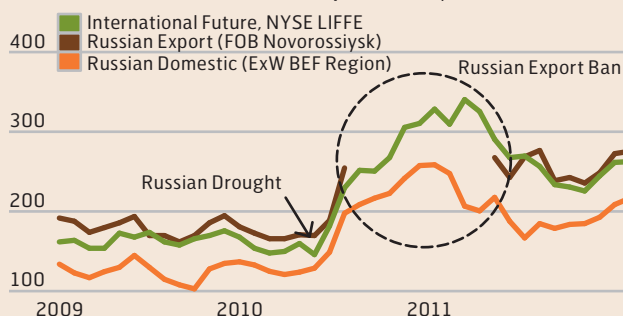
Processing
(Oils, Flour
etc.)

Livestock
(Animal
fodder)

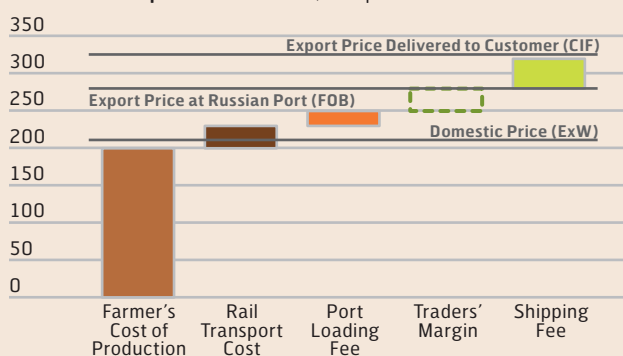
D5: Transport and Storage Costs, USD* per ton



D6: 2009–2011 Wheat Price Development, USD per ton



D7: Russian Crop Cost Value Chain, USD per ton



- Price (flexible timing of sales)
- Price (maintain quality of crop inventory)

- Price (domestic and international supply/demand balances)
- Price (regional/international price premiums)

Revenue
drivers

- Distribution expenses (storage)
- Internal logistics and handling to secure crop quality
- Capital costs (depreciation) as the Company owns major storage facilities

- Distribution expenses (transport)

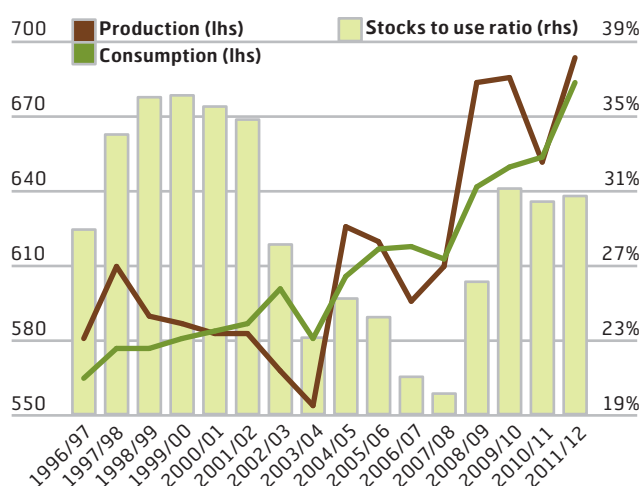
Cost
drivers

* The USD equivalent figures are provided for information purposes only and do not form part of the consolidated financial statements – refer to note 2 (d).

Market/Industry Overview

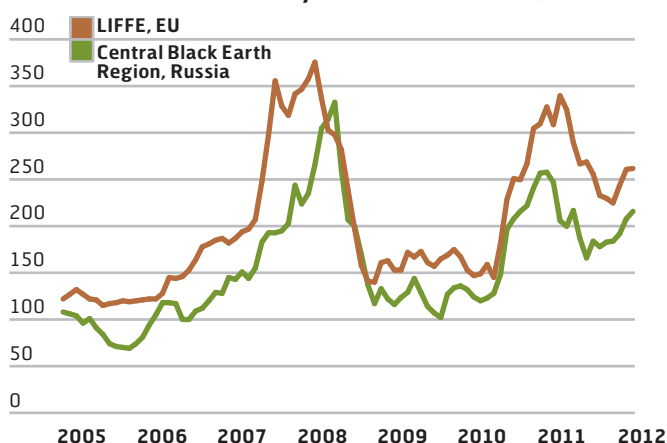
Agricultural Commodity Prices Decline as global and Russian 2011 harvest volumes normalize from 2010

D1: Wheat: Global Production, Consumption and Stocks to Use Ratio, million tons



Source: USDA

D2: Wheat Prices January 2005–March 2012, USD/ton



The market for production of grains and oilseeds is highly fragmented both globally and in Russia. Farming has historically been a family run small scale enterprise where both input suppliers and product traders have had market power versus the farmer. Even though large scale farms have taken over and now produce the majority of output farming products are still very much commodity markets.

Long term drivers of Agricultural Commodity Markets

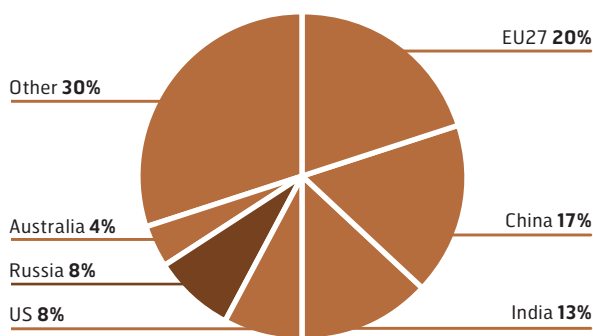
The key drivers affecting price formation of agricultural commodities include longer term favorable demand dynamics with shorter term and more volatile supply factors. A rising global population, mainly in the world's developing countries, with increasing disposable incomes is demanding better and more protein rich foods. As incomes rise so do dietary habits in favour of meat and protein where 2–7 kg of feed grains is required for every kg of meat produced. These long term fundamental trends, together with an increasing use of crops for biofuels in the light of higher energy prices and climate concerns, are driving global demand for agricultural commodities. On the supply side the global arable land per capita has steadily been declining as improved life science technologies have consistently increased global crop yields since the 1960s up until the turn of the century. The

T1: Top 10 Russian Farm Land Holders
(Controlled land)

Company	Total land bank, thousand hectares	Share of total Russian farmland	
1 Prodimex	570	0.5%	Private
2 Ivolga Holding	500	0.4%	Private
3 Razgulay	460	0.4%	Public
4 Napko	460	0.4%	Private
5 Zolotoy Kolos	450	0.4%	Private
6 Rusagro	414	0.3%	Public
7 Vamin Tatarstan	400	0.3%	Private
8 Tatfondbank	400	0.3%	Private
9 Siberian Agricultural Holding (SAHO)	400	0.3%	Private
10 Black Earth Farming	318	0.3%	Public
	4,372	3.6%	
Selected Other Listed Peers			
Alpcot Agro	183	0.2%	Public
Trigon Agri	130	0.2%	Public

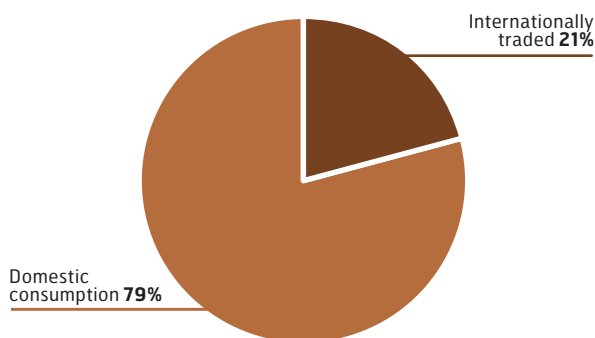
Source: IKAR, Company reports

D3: Global Producers of Wheat 2011



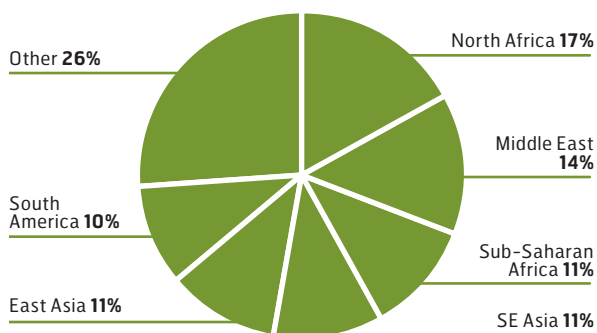
Source: USDA

D4: Share of World Wheat Production Traded Internationally



Source: USDA

D5: 2011/12 Wheat Imports by Country



Source: USDA

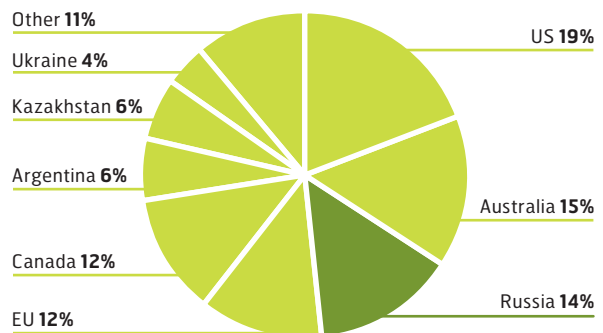
yield improvement, which needs to continue in order to keep up with demand given global limitations to land and water, has however decelerated during the past 10 years wherefore prices have become more volatile due to a higher sensitivity to supply shocks. Weather is a key factor driving yield variations from one year to the next, and a significant weather event causing supply disruptions in one of the main exporting countries has large consequences for international prices. Thus the longer term outlook for agricultural prices is encouraging although the short to medium term is likely to be driven by volatile supply from one year to the next relating to prevailing weather conditions.

Russian Farm Land

Albeit that large industrial farms represent a relatively high share in Russian production there is still little to no market power as the top 10 private farm land holders only represent about 4% of the total arable land in Russia. Approximately 143 million tons of wheat, Black Earth Farming's predominant crop in terms of volume and revenue, was traded globally in 2011/12 at an approximate value of USD 37.5 billion. Russia is expected to account for 14% of total exports in 2011/12 corresponding to USD 5.4 billion. By comparison Russian domestic wheat consumption of approximately 40 million tons in 2011/12 has a value of USD* 7.9 billion at average domestic prices. Black Earth Farming's market share of domestic wheat production 2011 amounted to about 0.3% highlighting the characteristics of a commodity market where producers are by and large price takers. Cost efficient operations are crucial in order to be competitive.

Activity within the Russian farm sector has picked up during 2011 with several large sized farmland transactions announced in neighbouring and proximate regions to BEF's operations. In March 2011 the London listed integrated agricultural company RusAgro acquired 97 thousand hectares in Belgorod which neighbours Kursk and Voronezh in the central Black Earth Region. The price of RUB 2.3 billion (USD* 71.7 million) implies a price of 740 USD* per hectare. Olam International, a Singapore based trader, announced its

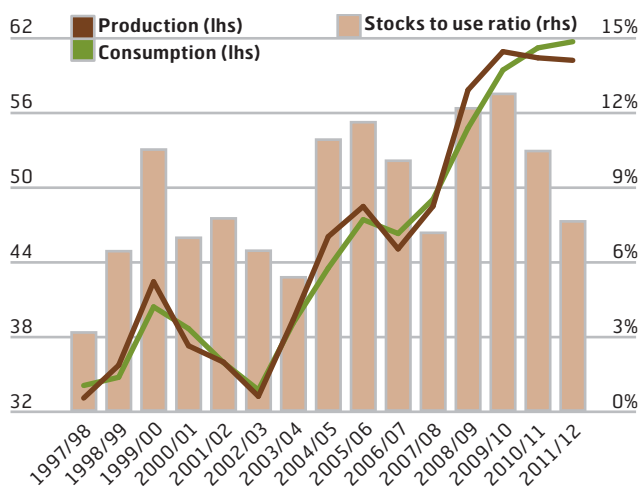
D6: 2011/12 Wheat Exports by Country



Source: USDA



D7: Rapeseed: Global Production, Consumption and Stocks to Use Ratio, million tons



Source: USDA

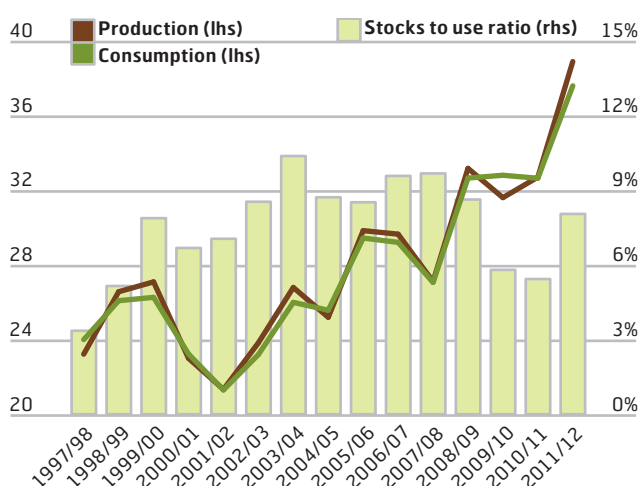
entrance into Russian upstream farming outlining a partnership with Rusmolko (Russian Dairy Company LCC) in the dairy and grains business. Olam purchased 75% of Rusmolko, with 52 thousand hectares of cultivated land and almost 4 thousand heads of dairy cattle in the region of Penza, for USD 75 million with the intention to invest a further USD 320 million during the coming years to increase the crop area and expand milk operations. Additional acquisitions by Trigon Agri and Sistema JSFC have also demonstrated the appreciation potential of Russian farm land as the sector continues to develop.

Global Grain Production

Grains or cereals include the staple crops wheat, rice and corn maize which account for about half of the world's calorie intake. Global grain production increased by 5.0% year-on-year to 1,841 million tons which represents the largest harvest on record. Although global carryover stocks will rise slightly in 2011/12 from last year's low figure to 378 million tons, the total carryover in the eight major grain exporters is still expected to dip by 4% to 131 million tons, the lowest figure since 2007/08.

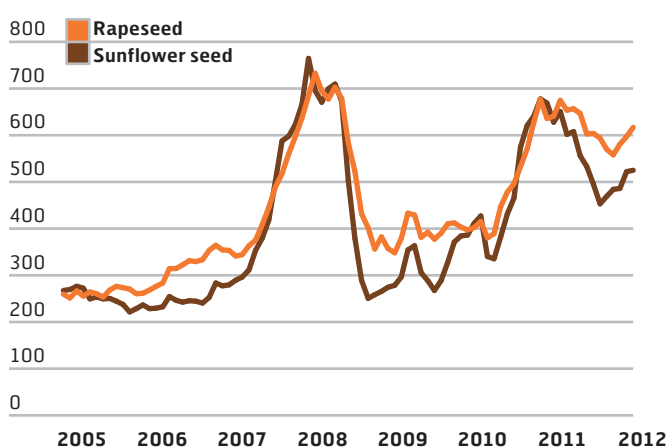
Wheat is the most important crop among grains in terms of area planted and global trade and is Black Earth Farming's largest crop by volume and revenue. Furthermore, the protein and caloric content of wheat is greater than that of any other food crop. A global supply response, brought on by the combination of high prices in 2010/11 and normalized weather in Russia and Ukraine, has shifted the potential global wheat production to a 10 year high stock level. 2011 EU yields were better than expected after early-season drought concerns, and ample supplies from Western and Eastern Europe as well as Australia sent wheat prices lower during 2011. Since the end of the year prices have however regained ground as the possibility of supply disruptions in

D8: Sunflower seed: Global Production, Consumption and Stocks to Use Ratio, million tons



Source: USDA

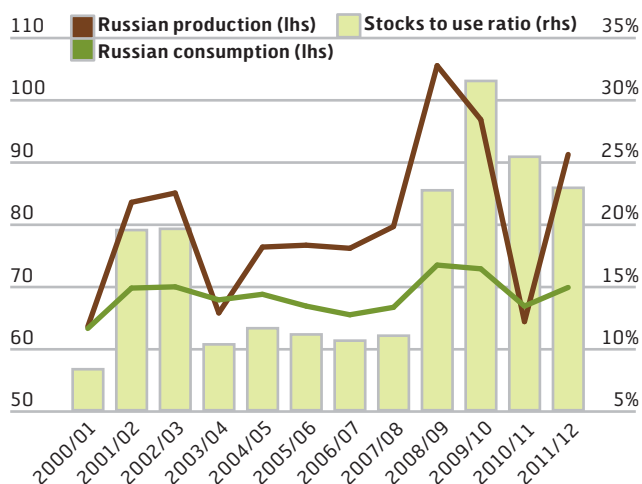
D9: Oilseed Prices January 2005–March 2012, USD/ton



Source: Sovecon

Russia Returns to Export Markets Following Normalized 2011 Harvest Volumes

D10: Russian Domestic Grain Production, Consumption and Stocks to Use Ratio, million tons



Source: IKAR, IGC

the Ukraine (dry planting conditions/poor establishment of the crop) and lack of moisture in both North and South America have become a concern.

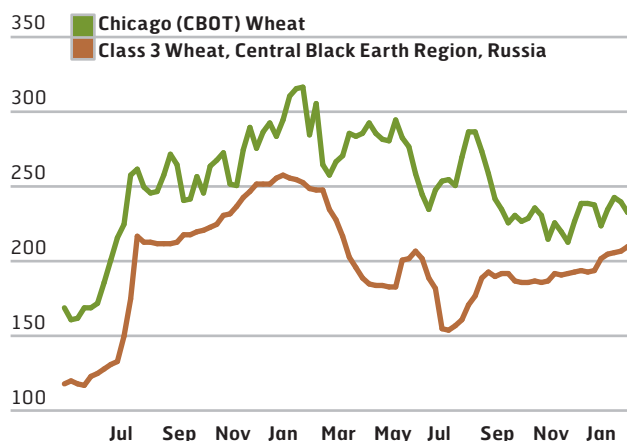
The fact that only 21% of global wheat production is traded and that the 5 top exporters account for 72% of total exports has great consequences for international prices when a supply shock affects one of the key producing countries. In 2010 the Russian drought caused prices to jump and following good harvest in the major exporting countries in 2011, prices have declined.

International Oilseed Market

Oil crops are the second most important source of energy in food and feed after grains. They are also recognized as a significant source for biofuel production. Black Earth Farming's main oilseed crops, sunflower and rape, represent only 9% and 14% of the total global production of oilseeds respectively. Soybean remains the dominant crop globally representing 55% of total oilseed production. Russia, Ukraine and Argentina are the main producers of sunflower seed and sunflower by-products, as well as suppliers to the global market. These three countries produce over 50% of the world's sunflower seed, which is why these three countries are often referred as the "sunflower triangle". Production swings in one of these countries has a great influence on the market situation in the other two countries, and affects the world market. More than 80% of the world's rapeseed production is provided by the EU-27, China, Canada and India of which the EU is a dominant supplier.

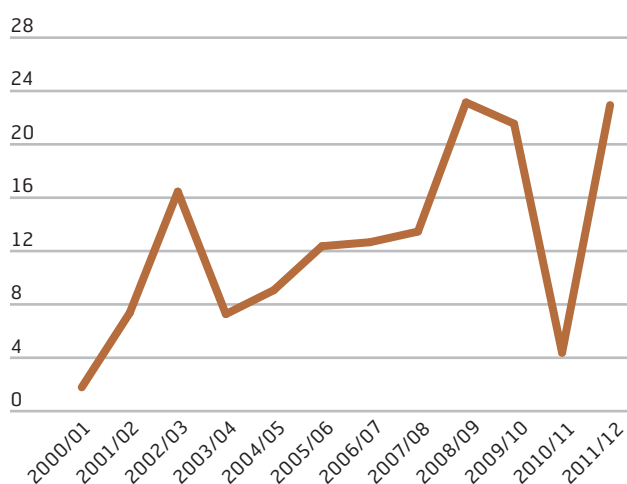
A record harvest of sunflowers in Russia and Ukraine put pressure on prices in 2011 although they have strengthened following the harvest season lows. Demand for vegetable oils as well as biofuels on the back of higher energy prices have however given support to oilseed markets in general.

D11: Russian and International Wheat Prices June 2010–February 2012, USD/ton



Source: CBOT, IKAR

D12: Russian Grain Exports, million tons



Source: IKAR, IGC

Russia

Wheat represents almost 70% of total Russian grain production yet the sources of use for wheat in Russia is different from international standards, as just 40% is used for human food consumption compared to 70% globally. Feed use for animal fodder in addition to seed retention for the following year's planting represents a much larger share of wheat consumption in Russia compared to the global average. Russian harvest volumes in 2011 were ample yielding 97.5 million tons of grains, up 53% from the drought stricken harvest in 2010, from 43 million hectares in total. This once again put strains on the country's transport and export infrastructure. A national shortage of rail wagons caused industry wide frustration regarding the main operator of grain transports by rail, Rusagrotrans.

From the price peak of February 2011 following the 2010 drought Russian domestic wheat prices dropped 40% to the harvest season bottom in July and August. Large uncertainty characterised the domestic market during 1H 2011 with very thin private trade volumes. With the export ban in place the Russian government distributed grains from its intervention stocks below market prices which distorted domestic trade and reduced prices. In late May it was announced that the export ban on grains would be lifted from 1 July 2011 which negatively affected international prices while domestic markets started to price in favourable supply from the 2011 harvest. After the initial pressure of large carry-in stocks of 2010 crop as well as the 3rd largest Russian grain harvest during the past 10 years, prices have recovered through late 2011 and early 2012.

Record Russian exports of approximately 25 million tons of grains are expected for the 2011/12 marketing year which ends in June. Russia is a key source of supply for the major proximate importers in Northern Africa and the Middle East accounting for an estimated 14% of total wheat exports in 2011/12. At the same time monthly export volumes out of Russian black sea ports slowed considerably to 1.4 million tons in January 2012 compared to over 3 million tons per month during the autumn of 2011. A combination of logistical bottlenecks and weather have slowed transshipments while easily exportable supplies from southern regions have dwindled, giving price support for Russian inland prices.

WTO Accession

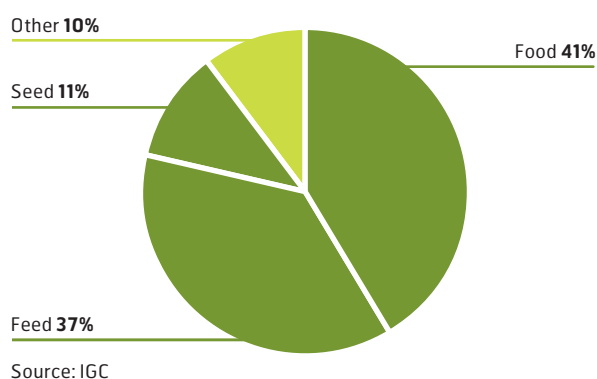
After 18 years of negotiations the World Trade Organization (WTO) formally invited Russia to join in December 2011. Russia is expected to ratify the accession agreement before July 2012 and officially become the 155th member. The World Bank has estimated that Russia will in the medium term gain 3.3 percent per year of the value of Russian 2010 GDP by its accession. More than 70% of the estimated gains

will be derived from improved quality and lower priced services that lead to productivity increases and increased competitiveness. Tariff reductions lowering prices for end consumers accounts for 18% of the gains while the remainder will stem from improved market access for Russian exporting companies. Within the agricultural sector the largest impact is expected to relate to reductions in current import restrictions and tariffs that favour domestic meat, especially pork, production. In addition the export tariffs currently in place for sunflower and rapeseeds will be reduced over time. Less trade extortions also imply that the likelihood of a repeat of an export ban for grains, as imposed during 2010/11, is low.

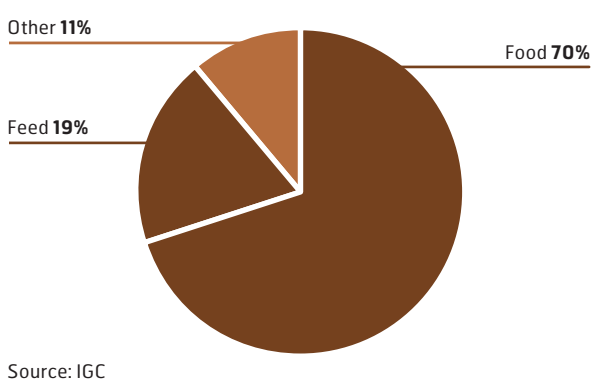
2012 Outlook

The Russian winter crop area of 14.5 million hectares is up 4% from the prior year, but lower than in the 3 years prior, with varying conditions so far depending on region. The spring planted area could increase to bring the overall area close to 45 million hectares, the average of the past 5 years. Concerns are however rising as planting is delayed by a late spring in Russia which narrows the window for seeding the targeted area. Even though a higher proportion of spring crops yield less than winter crops, early expectations of the Russian 2012 harvest are close to the 94 million tons harvested in 2011. Although early in the growing season, the cold weather and limited snow cover in Ukraine presents prospects of poor 2012/13 production and upside impetus to prices. Prices trended higher during the start of 2012 with Russian export policy in focus as easily exportable supplies from southern regions have dwindled. Hot and dry South American weather led the USDA to lower estimates of corn supply from Argentina and has supported corn and soybean prices. The key factors affecting the final harvest outcome and prices, will be weather effects on yields during spring and early summer of 2012.

D13: Breakdown of Russian Wheat Demand

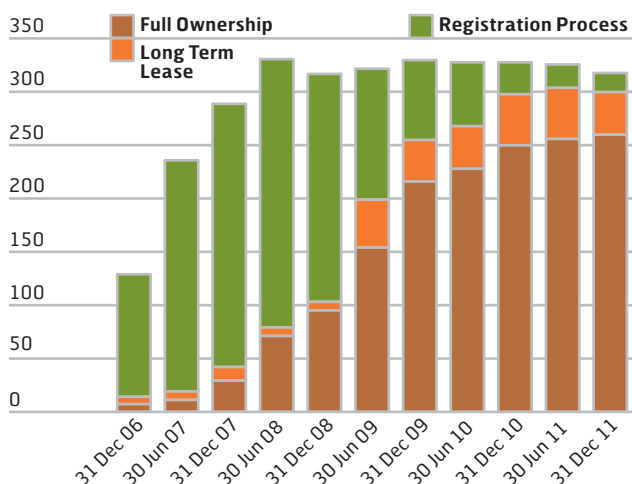


D14: Breakdown of Global Wheat Demand



Operational Review

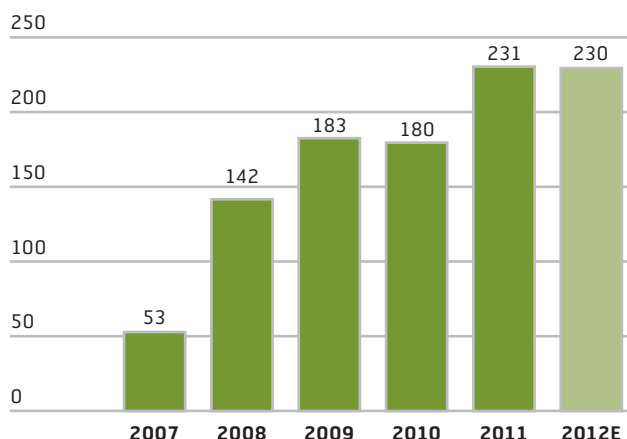
D1: 2007–2011 Land Development,
thousand hectares



Land

Black Earth Farming has a total land bank under control amounting to 318 thousand hectares as of 31 December 2011. The amount of land in ownership increased by 4% during the year to 260 thousand hectares or 82% of the total land bank. The process of obtaining the ownership rights to agricultural land in Russia has been complicated as well as time consuming. The end of this process is now approaching with an additional 14 thousand hectares to be registered. The remainder will be held in long term lease arrangements generally spanning up to 49 years. See note 33 (c) for a more comprehensive description of risks related to land acquisition and registration. Consolidation and further improvement of the operational and logistical efficiencies in and around the existing farm blocks continues. The current focus is not on significant expansion of the land portfolio, but on finalizing the registration process of controlled land into full ownership and raising crop production on the current foot print.

D2: 2007–2012E Crop Area,
thousand hectares



Production

Black Earth Farming has since its inception in 2005 broken long fallow on approximately 260 thousand hectares in total. The fields have been cultivated or developed back into a productive state by heavy discing in order to level fields and remove overgrown weeds and in some cases heavy scrub. The crop area has expanded rapidly from 6 thousand hectares in 2006 to 231 thousand hectares in 2011 wherefore the focus is currently on the main challenge of raising crop yields. Improving this area is crucial and involves several factors from technical agronomy to organisational structure changes to improve not only technical knowledge and decision making, but also implementation and execution.

In early 2011 a new technical partner undertook an audit of historic decision making processes and made recommendations regarding strategy and crop management going forward. Part of this review has been identifying what underlying data and analysis is missing for BEF's cropping region and filling the information gaps through internal research and crop trials. This will take some time but once completed it will be a significant competitive advantage.



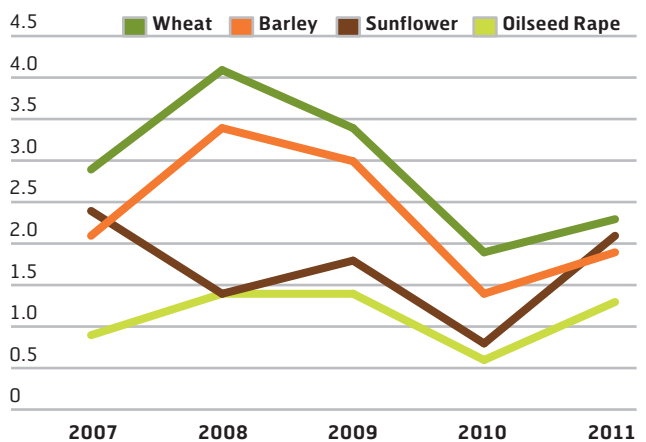


2011 Harvest

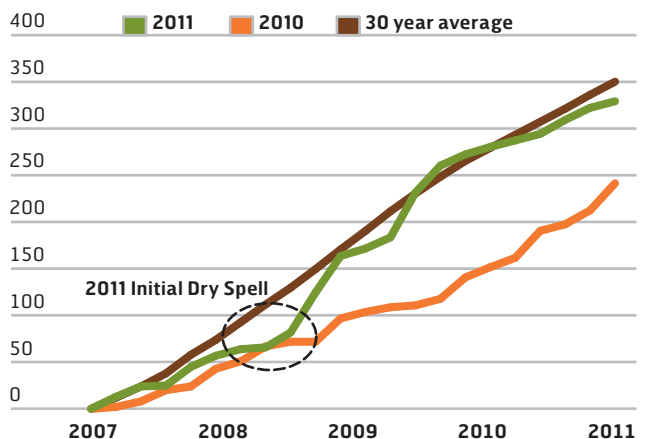
As illustrated by diagram D3 and D4 the 2011 harvest suffered from a dry spell starting mid-May when BEF's fields had virtually no rainfall up until late June and in some places early July. Average cumulative rainfall was tracking the drought conditions seen in 2010 up until the end of June. This had a negative effect on wheat and barley yields at 2.4 and 1.9 tons per hectare in particular (30–35% below the 2007–09 average) as they were closer to harvest.

Heavy rainfall during July and August helped the situation for sunflower and corn crops which produced better yields of 2.0 and 4.9 tons per hectare respectively. The heavy and prolonged rainfall throughout July and August delayed the harvest and also reduced quality as many standing crops sprouted. Approximately 35% of the wheat harvest was class 5 feed quality or below with the remainder Class 3 and 4 milling quality and the majority of the barley crop was also feed and not malting quality.

D3: 5 Year Yield Development per Crop,
tons per hectare



D4: 2010 & 2011 April–October Average Cumulative Rainfall vs. 30 Year Average in BEF's Regions, mm



Source: USDA, WMO



BEF's Crops

Black Earth Farming grows three classes of crops; cereal grain, oilseed and beet. Farming is generally a very precise science based on multiple trials to adapt the selection of seed varieties as well as application rates of key inputs such as fertilizer depending on the specific soil and climatic conditions in the region. A lot of this data to base decision making on is generally held in public hands or with life science companies but in Russia the available data is not comparable to western standards. Public data on trials are seldom based on economic optimums while the specifics of the seed licensing process has not incentivized large scale and in-depth trials adapted to the specific soils and climate in BEF's regions among private companies.

BEF is thus continuously working to build up this R&D capacity internally in co-operation with a world leading technical partner in order to have all the data needed to make well researched and optimal crop growing decisions.

Cereal (grain)

Cereal crops are members of the grass family where wheat, corn maize and rice are the most commonly farmed types worldwide and together account for approximately 85% of all grain production worldwide and 45% of all food calories.

Wheat

Most wheat is consumed in the form of baked goods, mainly bread; therefore wheat grains must be milled to produce flour prior to consumption. Wheat is also used as an ingredient in compound feedstuffs, starch production and as a feed stock in ethanol production. The harvest quality of wheat can vary widely from high protein milling quality commanding a price premium versus low quality feed used as animal fodder.

Black Earth Farming uses a combination of different wheat varieties. Winter wheat is planted during the autumn and like other winter crops, higher yielding compared to the corresponding spring crop due to the higher number of growing days. Winter wheat can be planted during a relatively long period which enables cultivation of large land areas with this crop. Winter and spring wheat is harvested during the same period generally commencing in mid-July.

Barley

Barley is mainly used for animal fodder and as a base malt for brewing beer and other distilled beverages such as whiskey as well as a component in various foods. The crop can vary in terms of quality between malting and feed quality which has an effect on price.

Black Earth Farming cooperates with local brewers and aspires to grow a high share of malting quality barley on a contract basis with harvest usually starting around early August.

Corn Maize

Corn is a major food and feed grain grown throughout the world in temperate and warm climates. It is the most widely grown crop in the Americas where a major part of the production is used for corn ethanol.

The Company cultivates this grain primarily in the southern regions where rainfall is more limited and the summer temperature is higher. Corn is a late harvest crop and is generally planted in May and cut in late September into October.

Oilseed

Sunflowers

Sunflowers are primarily used in food products and oils as well as livestock feed. Due to the sunflower's drought resistant characteristics, it fills an important role in the overall crop mix. Sunflower is normally reaped a week or so after spring rape and just requires a simple addition to the combine header for harvesting, thus reducing additional capital expenditures.

Oilseed Rape (OSR)

Rapeseeds are primarily used for producing vegetable oil and biodiesel. Winter rape generates a higher yield than spring rape due more growing days yet carries a higher risk as the winter conditions can kill large part of the seeded area. Rape characteristics enable a crop rotation system which ensures that winter wheat can be sown the following Agricultural year. The spring variety has lower risk than the winter variety but is also lower yielding.

Soybeans

Soybean is one of the most popular and widely grown oilseeds. The derived product Soybean meal is a primary, relatively low-cost, source of protein for animal feeds or rations; soy vegetable oil is another valuable product of processing the soybean crop. Soybeans can produce at least twice as much protein per acre than any other major vegetable or grain crop. Soybeans, like most legumes, also perform beneficial nitrogen fixation in the soil.

Beet

Sugar Beet

Sugar beet is a hardy plant that can be grown commercially in a wide variety of temperate climates that is normally planted in the spring and harvested in the autumn. Beet sugar accounts for 30–35% of the world's sugar production.

T1: Harvest Area Breakdown

(Hectares)	2007	2008	2009	2010	2011
Winter wheat	16,805	48,636	84,698	72,677	93,627
Spring wheat.....	n/a	4,339	3,824	10,157	13,093
Spring barley.....	20,180	42,638	43,053	13,793	26,535
Corn maize.....	1,215	9,950	8,084	8,592	6,149
Winter triticale.....	n/a	n/a	2,740	302	n/a
Total Grains	38,200	105,563	142,399	105,521	139,404
Winter rape	5,005	875	7,045	536	n/a
Spring rape	7,035	13,149	7,132	29,051	33,494
Sunflower	2,541	19,378	26,466	36,761	45,269
Soya	n/a	n/a	n/a	7,899	7,863
Total Oilseeds	14,581	33,402	40,643	74,247	86,626
Sugar Beet.....	n/a	n/a	n/a	n/a	1,621
Total Commercial Area.....	52,781	138,965	183,042	179,768	227,651
<i>Other/Forage crops</i>	<i>670</i>	<i>2,968</i>	<i>381</i>	<i>1,013</i>	<i>1,951</i>
Total harvest area.....	53,451	141,933	183,423	180,781	229,602

T2: Average Net Crop Yields

(Tons/hectare)	2007	2008	2009	2010	2011
Winter wheat	2.9	4.1	3.3	1.9	2.4
Spring wheat.....	n/a	2.9	2.1	1.4	1.6
Spring barley.....	1.9	3.3	2.8	1.4	1.9
Corn maize.....	2.8	2.3	3.1	0.6	4.9
Winter triticale.....	n/a	n/a	2.2	0.7	n/a
Winter rape	1.2	1.6	1.4	0.5	n/a
Spring rape	0.8	1.3	1.2	0.5	1.1
Sunflower	1.6	1.3	1.7	0.8	2.0
Soya	n/a	n/a	n/a	0.2	0.9
Sugar beet.....	n/a	n/a	n/a	n/a	25.6

T3: Net Harvest Volumes

(Tons)	2007	2008	2009	2010	2011
Winter wheat	48,093	201,377	280,648	137,703	220,608
Spring wheat.....	n/a	12,472	7,863	13,791	21,187
Spring barley.....	38,466	138,752	122,375	19,595	49,166
Corn	1,335	22,651	25,251	5,152	29,989
Winter triticale.....	n/a	n/a	5,930	211	n/a
Total Cereal Grains.....	87,894	375,252	442,067	176,451	320,949
Winter rape	6,083	1,395	10,014	246	n/a
Spring rape	5,647	16,657	8,470	15,497	36,887
Sunflower	4,126	25,285	45,580	28,904	89,614
Soya	n/a	n/a	n/a	1,818	7,114
Total Oilseeds	15,856	43,337	64,064	46,465	133,615
Sugar beet.....	n/a	n/a	n/a	n/a	41,531
Total Commercial Crops.....	103,749	418,589	506,131	222,916	496,096
<i>Other/Forage crops.....</i>	<i>2,659</i>	<i>22,928</i>	<i>3,381</i>	<i>3,686</i>	<i>14,597</i>
Total Output.....	106,408	441,517	509,512	226,602	510,693

Progress on 5 Key Initiatives to Raise Crop Yields

Good progress has been made during the autumn of 2011 regarding the 5 key priorities being undertaken to lift the yield potential and remove constraints. The focus areas include;

Lime application to correct soil pH

Acidic soils reduce crop yield, with research demonstrating that pH levels close to 5 can reduce crop yields in wheat by 30%. To correct for low soil pH levels, lime needs to be applied, which in its cheapest form is a waste product from sugar refineries. The challenge is regarding logistics as application rates of 8 tons per hectare involve large tonnages of product to transport, load and spread in order to treat larger areas. During the autumn 12 thousand hectares was applied with lime targeted at the most acidic soils. There should be a response in the 2012 crop from this but it is estimated that an additional 2 seasons of lime applications at least will be required in order to treat the entire target area in between crops.

Deep cultivations to relieve soil compaction

The soils audit also identified problems with soil structure and compaction, restricting crop root growth, which results in lower yields and poorer performance during dry conditions. Limited amounts of deep cultivations have previously been performed so in places our operations have exacerbated the problem although the main issue is clods of earth left from Soviet times. 37 thousand hectares have been sub-soiled to shatter the earth and remove pans at depths of 20

cm and below. This will be incorporated in the annual cultivation program over several years to rotationally relieve compaction and improve structure.

Fertilizer, potash and sulphur applications

Potash has historically only been applied on a replacement basis which has led to under-application and not necessarily been linked to soil test data. Potash is very important for water relationships within plants and thus low levels of potash in the soil have compounded drought stress problems. Approximately 46 thousand hectares where potash levels were low have been corrected during the autumn 2011. Additional sulphur will also be applied to crops where the data shows a significant yield response and an economic benefit.

Weed management through glyphosate application

Substantial areas of crops suffered from heavy bindweed populations as illustrated by the photograph below. According to research, field bindweed can reduce wheat yields by up to 30% and barley yields by up to 65%. Over 200 thousand hectares have been sprayed with glyphosate pre- and post 2011 harvest during the summer and autumn (5 times the area in previous years) to reduce the problem.

Seed Management

BEF uses a high proportion of home grown crops for seedling wheat. Management of internally grown seed crops has been improved ahead of the 2012 harvest to include the appropriate site selection, weed control, applications of additional fungicides and micronutrients.



Spreading Lime to Correct Soil pH-levels



Deep Cultivation to Relieve Soil Compaction



Bindweed Infested Crop



Glyphosate Treated Field to Control for Weeds

Organisational Education/Training and Farm Cluster Management

The other part of lifting average crop yields is minimizing mistakes and reducing the variance in crop yield between fields. Historic crop yield performance among our fields illustrates a high level of variance. The immediate focus here has been on ensuring that we have the right machinery and managerial capacity to ensure that operations are performed well and on time. Education and training programs have been implemented to support this. Management capacity has also been added within production by hiring two additional production directors while also increasing the management layer below, in order to reduce the number of hectares a single manager is responsible for and to increase accountability.

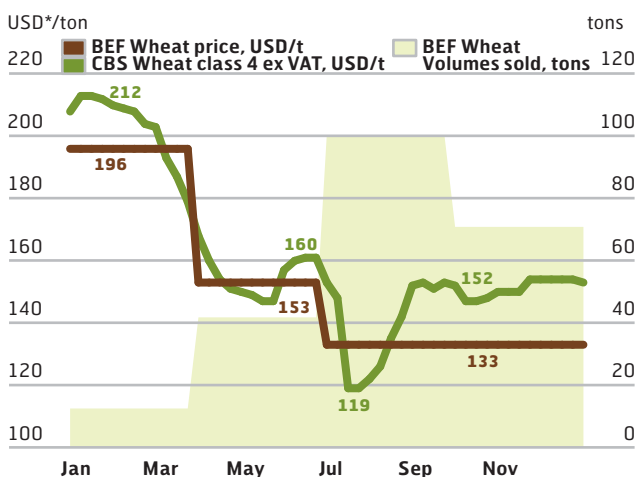
The improvements from these measures will not be instant. It will take time – probably 2 to 3 years – to remove all the current constraints to yield and fine tune the operations to the necessary level.



Crop Handling & Logistics

The wet harvest conditions also put strains on handling, drying and storage logistics. 2011 was the first year of handling and storing 100% of a normal sized harvest internally and significant commissioning problems were encountered. These included external factors such as delays in obtaining permits to unload crops from one elevator and the non-delivery of contracted rail cars limiting storage turnover and created internal bottlenecks with drying, handling and storage logistics. The problems with clearing enough space and drying the high volumes of wet crops to acceptable levels quickly caused deterioration of some crops post harvest which ultimately necessitated discounted sales. Diagram D5 illustrates the negative price effect on wheat sales during 2H 2011 vs. market prices. A full review of elevator build, design and operating efficiency as well as overall harvest logistics is being undertaken during 1H 2012 to improve operations in this area going forward.

D5: BEF 2011 Quarterly Average Realised Wheat Price & Sales Volume vs. Market Development



Terms of Delivery

Producers	EXW	CPT	FOB	International consumers
 + Cost + Producers' margin	 + Transportation + Traders' margin	 + Port charges + Custom duties + Traders' margin	 + Freight + Insurance + Traders' margin	
Main Sellers				
Domestic producers	+	+	-	-
Domestic traders	+	+	-	-
International traders	-	-	+	+
Main Buyers				
Domestic consumers	+	-	-	-
International consumers	-	-	+	+
Domestic traders	+	+	-	-
International traders	+	+	+	+

Sales & Marketing

During previous years the vast majority of sales have been executed domestically on the spot market. The list of customers generally varies from local breweries and oil crushers to large international grain traders, who subsequently export the grain. Sales have been conducted on an ex-works basis, i.e. the buyer organises transport to collect crops at BEF's farm gate. With the ramp up of elevator capacity, all with direct rail access, there is potential to improve the price per ton received. Contract terms including loading, transport and longer distance delivery via rail to the buyer can be included in the price as well as providing access to export markets. Internalising the trade margin from producer to end customer is a key advantage, specifically in Russia where this margin is abnormally high by international standards as illustrated by D7. Sales including transshipment will also enable consolidation of larger volumes of crops with specific qualities facilitating larger and better priced contracts.

Export capability is important not only for selling at higher prices (as shown in D6 and D7) but also for managing price risk by locking in prices via forward sales. Russia lacks a functioning domestic physical forward or futures market. The high levels of defaulted contracts result in substantial price discounts for most types of offered forward contracts. In order to improve this situation BEF is focusing on establishing partnerships with quality counterparties both internationally and domestically to improve price risk management. There are large potential end customers domestically in Russia with the opposite side of the problem needing to find large scale reliable suppliers to mitigate the price volatility of agricultural commodities. Extensive work is taking place to forge alliances on this front.

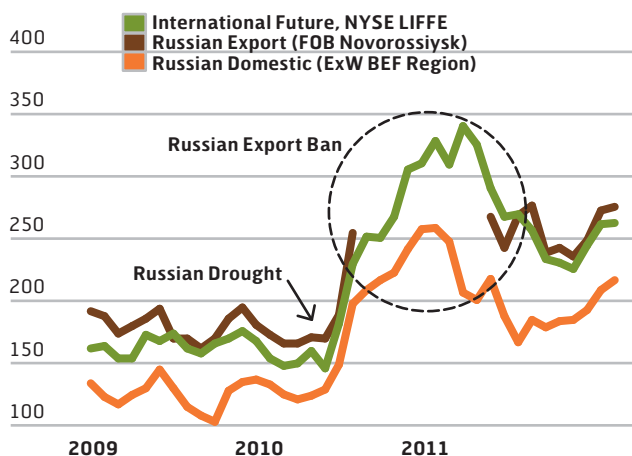
As the export ban on grains was lifted on 1 July 2011 plans were in place to sell a high share of the 2011 harvest for export. 33 thousand tons were shipped before a national shortage of rail cars curtailed the export program short. The

operations and forwarding of grain rail cars has one dominant market player in Russia with very few alternatives and all are reliant on a fully state regulated locomotive service for forwarding. During 2011 export premiums for wheat ranged between 20–40 USD* per ton on a net parity level including transport cost adjustments. With this premium in mind planned export volumes were shifted into 2012 with a hope of an improved situation for rail logistics. Options of what can be done regarding this situation are also being evaluated. In addition to forcing domestic sales at lower prices, the lack of turnover at the elevators also caused strains on drying capacity. The effects of bottlenecks in handling, drying and storing were amplified when large volumes of sunflower and corn were harvested late and wet. The loss of milling and malting quality for wheat and barley together with very high moisture levels for sunflower and corn, forced sales at discounted prices which reduced the average realised prices during 2H 2011.

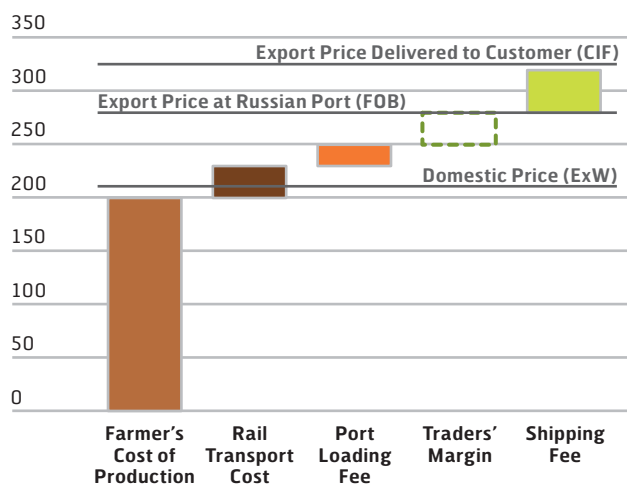
2012 Harvest Prospects

The moist conditions during autumn 2011 allowed the 82 thousand hectares planted with winter wheat to establish well. The majority of winter crop area has had reasonable snow cover to date although the cover is at the lower limits in one of the four regions. Although it is too early to identify any potential loss of crops our view is that the winter to date in the central Black Earth Region is not as extreme as elsewhere in many parts of Eastern Europe. The total 2012 crop area is planned at approximately 230,000 hectares. The crop mix will include increased areas of corn, soy and sugar beet compared to previous years which is mainly due to crop rotation constraints and the somewhat shorter autumn seeding period following a late 2011 harvest. Some 60 thousand tons of 2012 crop are sold forward to lock in current price levels, mainly malting barley as well as some sunflower and rapeseeds.

D6: 2009–2011 Wheat Price Development,
USD per ton



D7: Russian Crop Cost Value Chain,
USD per ton



2011 Financial Review

2011 was another challenging and disappointing year financially for Black Earth Farming as results were again affected by weather reducing early crop yields and both internal and external factors impeding crop quality and thus price. These together with declining market prices during the first 9 months of 2011 were the key driving factors resulting in an operating loss of USD* 25.2 million for 2011.

Revenue

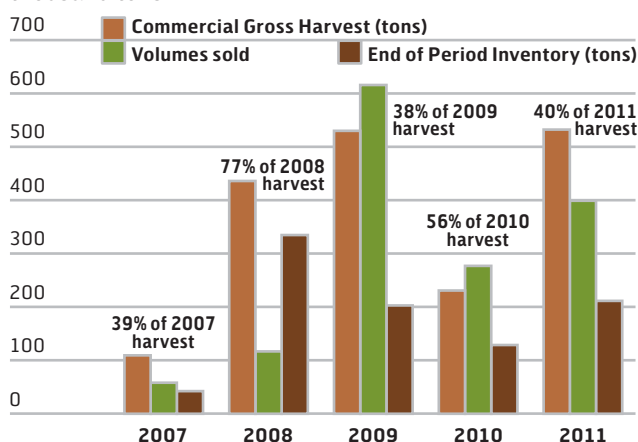
2011 revenue was negatively affected by both low volumes of wheat, barley and rape harvested during 2011, as well as reduced prices affected by crop quality. Total sales revenue of USD* 64.2 million increased 45% from 2010 with total 2011 revenue & gains increasing 30% year-on-year to USD* 77.6 million. 399 thousand tons of crops in total were sold during 2011, 69% of which were crops harvested 2011, a 44% increase from the drought struck year of 2010. Wheat represented 56% of volumes sold while higher priced oilseed crops, sunflower, rape and soya constituted 22% of sales volumes. In addition 2011 saw the first harvest of sugar beets which represented 10% of volumes sold and affected the sales mix negatively compared with 2010 as it is a higher yielding but lower priced crop.

The 2011 average realised price of USD* 157 per ton increased 1% from 2010. The quarterly price graph highlights a steadily declining market during 2011 as marked prices peaked in January 2011 following the 2010 Russian drought. Domestic and international prices did however strengthen during the end of 2011 and have continued to trend upward during the start of 2012. The quarterly realised price is generally affected by the sales mix but during 4Q, high moisture levels and poor quality of crops sold, were key factors affecting the price of 2011 crop. Logistical bottlenecks, such as a Russia wide shortage of railcars delaying export sales and limiting storage turnover, in combination with internal issues regarding storage logistics also affected prices negatively.

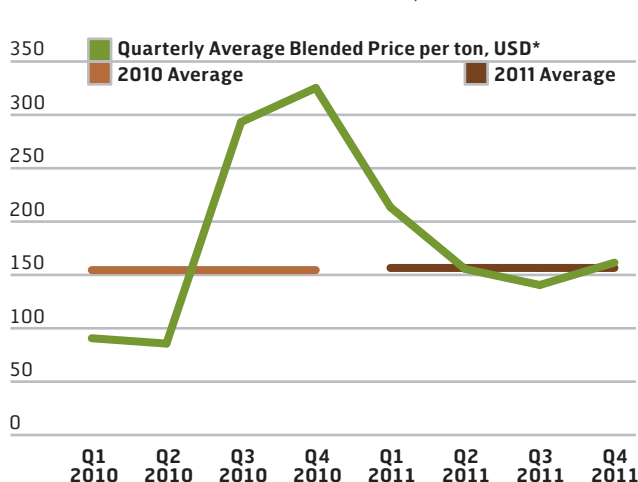
Gain/Loss on Revaluation of Biological Assets & Inventory

Total 2011 revenues and gains of USD* 77.6 million includes gains from revaluation of biological assets in the amount of USD* 16.0 million constituting 21% of total revenues and gains for 2011. That compares with a USD* 11.8 million gain for the same period in 2010. The gain is derived by using final harvest volumes multiplied by market prices at the time harvest was concluded, which differs per crop, less incurred production costs and expected selling expenses. Post harvest the P&L is affected via change in net realizable value driven by market price developments affecting the crop inventory value.

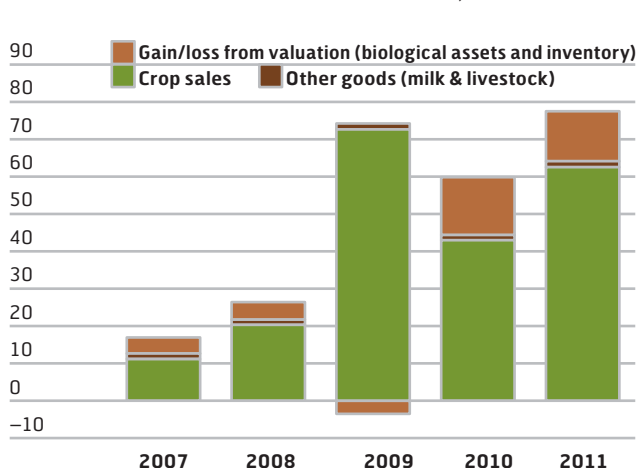
D1: 2007–2011 Production, Sales and Inventory, thousand tons



D2: BEF Realized Price 2010–2011, USD*/ton



D3: Total Revenue & Gains 2007–2011, million USD*



* The USD equivalent figures are provided for information purposes only and do not form part of the consolidated financial statements – refer to note 2 (d).

T1: 2011 Quarterly Sales Volume & Crop Inventory

	4Q 2011	Quarterly Sales			Crop in Inventory	
Volume, k tons		3Q 2011	2Q 2011	1Q 2011	31 Dec 2011	31 Dec 2010
Wheat	70.9	100.4	41.8	12.5	115.6	110.0
Barley	24.2	11.5	0.5	3.1	18.6	10.5
Corn	1.0			0.4	29.0	0.3
Rape	22.2	0.7			13.9	
Sunflower	64.9				24.7	
Soya	0.3	0.8	0.4	0.5	6.8	1.7
Sugar beet	24.4	17.2				
Other (seeds/forage)	0.8	0.8		0.2	3.3	6.6
Total Tons	208.7	131.4	42.7	16.7	211.9	129.1
Price, USD*/ton						
Wheat	133	155	153	196	156	205
Barley	126	126	165	250	164	245
Corn	71			249	119	245
Rape	271				248	
Sunflower	215				298	
Soya	296	377	422	431	311	402
Sugar beet	51	51			51	
Average Price	162	141	156	214	163	212

As of the reporting date biological assets consisted mainly of the costs incurred for seeding of winter crops to be harvested 2012 amounting to USD* 16.2 million. 2.5 thousand hectares of sunflowers were not harvested as of 31 December and is recorded in Biological Assets at estimated fair value of USD* 0.3 million.

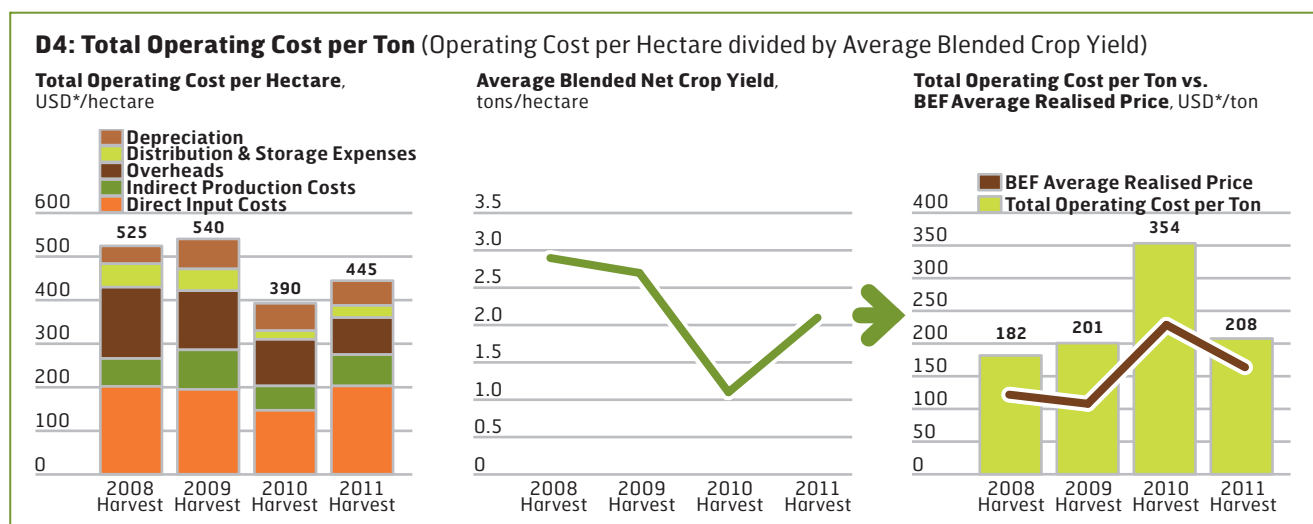
212 thousand tons of crops harvested in 2011 were held in inventory as of 31 December 2011, with 55% of the volumes consisting of wheat, 14% corn and 12% sunflower. Domestic market prices (excluding 10% VAT) detailed in table T1 have been used to determine the net realisable value of USD* 37.9 million. The revaluation of finished goods inventory resulted in a USD* 2.6 million loss for 2011 driven by changes in crop quality of sunflowers and corn post 2011 harvest.

Costs

The company changed accounting policy in 2011 (please see note 5 on page 55 for details) and now holds crop inventory marked to market at fair value. Thus cost of sales includes the inventory value of both the mark to market value of

crop in inventory as well as fair value estimate of 2011 crop if recorded in biological assets as of the start of the reporting period. Cost of sales for 2010 crop held in opening inventory therefore constituted the market value as of 31 Dec 2010. Thus the accounting treatment of cost of sales in the income statement and actual cost differ significantly.

Black Earth Farming's production cycle commences with seeding of winter crops during the fall in the prior calendar year and includes several stages of field work until the harvest period commences in July through October depending on the crop variety (please see diagram D9 on page 33). Approximately 40% of costs are incurred in the fall of the preceding calendar year as winter crops are seeded and fields are cultivated. The remaining 60% is incurred during the spring and summer in the same calendar year as part of the spring seeding campaign, followed by field works and harvest. Thus it is only for every new harvest (i.e. production cycle) that the company can affect the actual costs of production. Diagram D4 illustrates the 2008–2011 cost development per harvest year where crop yields have a material effect on the cost per ton.

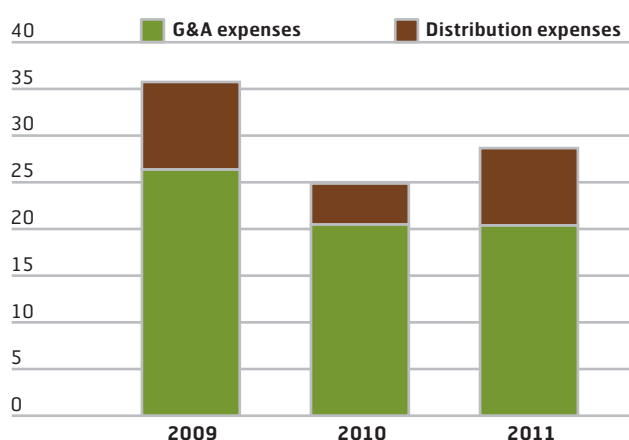


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2011 G&A expenses of USD* 20.4 million are in line with 2010. Overhead costs increased by USD* 1.2 million in 4Q 2011 as a result of new hires to strengthen the regional production teams as well as services rendered from our technical agronomy partner. Indirect costs that are unrelated to crop yield performance is however being reviewed with a target to reduce overhead costs further.

Volume driven distribution costs are up significantly y-o-y for the full year and 4Q 2011 compared to 2010 as transport and delivery expenses were incurred for export cargoes of which there were none in 2010. 2011 harvest volumes also increased significantly compared to 2010 and operating expenses relating to the newly commissioned elevators are also included in distribution expenses as of 3Q 2011 as handling of the 2011 harvest commenced.

D5: SG&A Expenses, USD* million



T2: Revenue and Result per Hectare (Harvest Year¹)

	2008	2009	2010	2011
Average Net Crop Yield, tons (sold) /ha	2.88	2.69	1.11	2.12
Average Realised Price, USD*/ton	122	108	229	163
Revenue per Hectare, USD*/ha	351	292	254	347
EBITDA per Hectare, USD*/ha	-132	-180	-76	-40
EBIT per Hectare, USD*/ha	-173	-249	-139	-98

1. Harvest year differs from calendar year as crops are seeded in autumn and spring and harvested the following summer and autumn with sales undertaken up until the next harvest.

Result

Despite the volume driven increase in 2011 revenues the operating loss of USD* 25.2 million did not improve significantly compared to 2010. The company's gross result is very sensitive to crop price movements which affects realised sales but also changes to inventory value (both crops in storage and standing in fields) between reporting dates. This is especially true during the harvest season as changes in inventory value marked to market are not only driven by crop prices, but also by preliminary estimates of net harvest volumes at 30 June and 30 September.

As of 1 January 2011 129 thousand tons of 2010 crop were held in inventory at fair value determined by an average blended market price of USD* 212 per ton. As the year progressed Russian and international crop prices declined, highlighted by diagram D2 and sales during 2011 resulted in an average realised price for 2010 crop of USD*167 per ton. Thus the 2011 result includes a USD* 6.6 million gross loss for the carry in stock of 2010 crops.

A key factor limiting an improvement in the 2011 results was the effect of the early 2011 dry spell that affected wheat, barley and rapeseed volumes negatively. Wheat and barley yields were 30–35% below the average yields achieved during normal conditions in 2007–09 which corresponds to approximately USD* 20 million in foregone revenues based on the prices realised during 2H 2011. In addition adverse harvesting conditions during late summer and autumn also impacted negatively on crop quality. This led to forced price discounts of 20–35 USD* per ton for wheat and barley or a further USD* 2 million of foregone revenue. In addition the high moisture levels for corn and sunflower meant that realizable value declined by approximately 50 USD* per ton, over USD* 5 million in total for a large amount of volumes.

Full year 2011 EBITDA amounted to USD* -12.3 million versus USD* -6.9 million in 2010. Revaluation effects between two different harvest years skews the comparison of these numbers and diagram D4 and table T2 illustrate the development per harvest year. The operating result per hectare for the 2011 harvest is, although not satisfactory, better than all previous harvest years. Revenue per hectare is close to 2008 levels when yields were higher but prices lower. 2011 operating costs per hectare are up y-o-y but the severe



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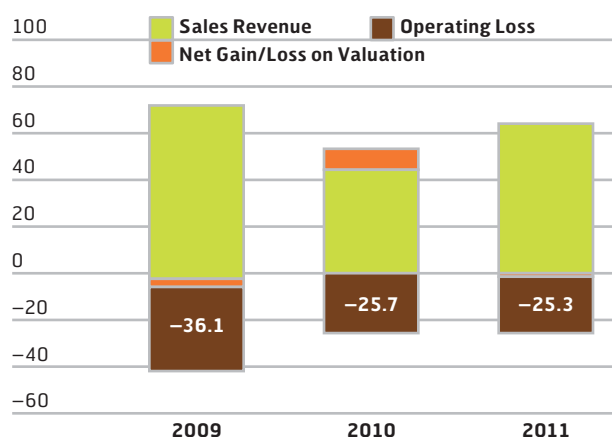
drought that impacted the 2010 harvest makes it an abnormal reference point, as some inputs were scaled back and volume driven costs were lower. As table T2 highlights both operating result and EBITDA for the 2011 harvest year has

improved versus all previous years. A USD* 5.2 million loss on FOREX translation (SEK/RUB strengthening affecting the SEK denominated debt) in net financial expenses also affected the 12M 2011 net result negatively.

T3: Summarized Income Statement

USD* million	2009	2010	2011
Sales Revenue	74.4	44.4	64.2
Total Revenue & Gains	70.9	59.9	77.6
Cost of Sales	-71.9	-51.1	-72.4
Gross Result	-1.0	8.8	5.2
General & Administrative Expenses	-26.4	-20.5	-20.4
Distribution Expenses	-9.4	-4.4	-8.4
Other Net Operating Expenses	0.7	-9.6	-1.6
EBIT	-36.1	-25.7	-25.2
EBITDA	-24.8	-6.9	-12.3
Net Financial Expenses	-4.5	-12.6	-15.2
Taxes	0.4	1.9	-1.2
Net Income	-40.1	-36.4	-41.7

D6: 2008–2011 Revenue & Operating Result, USD* million



Crop Inventory (BV 38 MUSD*)

Thousand tons

Wheat	115.6
Barley.....	18.6
Corn	29.0
Sunflower.....	24.7
Rapeseed	13.9
Other	10.1
Total.....	211.9

Procured Fertilizers, seeds, herbicides & fuel etc. for 2011 field work

Consumables Inventory (BV 21 MUSD*)

Income Statement

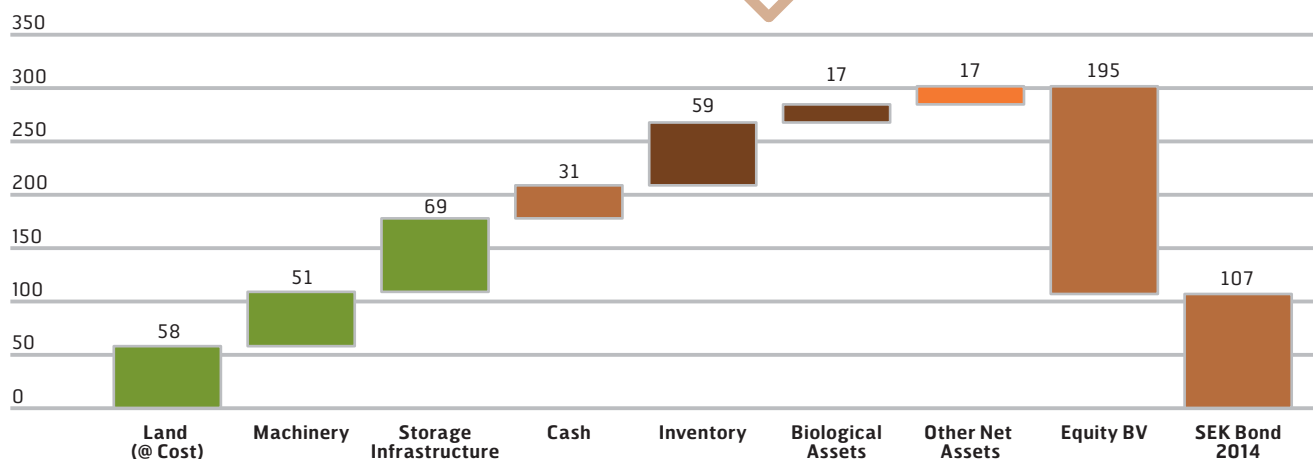
USD* million	2010	2011
Crop Revenues	43.0	62.6
Crop Volumes Sold, k tons	278	399
Average Price, USD* per ton	155	157
Gain/(Loss) on Revaluation of Biological Assets	11.8	16.0
Gain/(Loss) on Revaluation of Crop Inventory	3.7	-2.6
Other Revenues	1.4	1.6
Total Revenues & Gains	59.9	77.6



Seeded 2011, harvest 2012

Biological assets (BV 17 MUSD*)

D7: Simplified Balance Sheet a/o 31 December 2011, USD* million

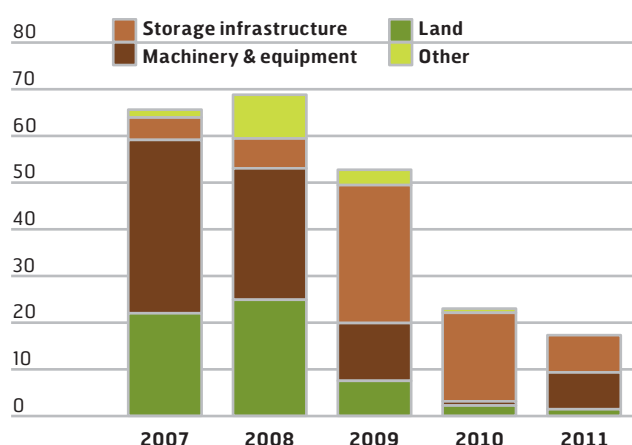


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Assets

Since inception Black Earth Farming has invested in (a) acquiring and registering land into ownership, (b) a large fleet of western agricultural machinery and (c) supporting storage infrastructure for the Company's operations. The majority of the investments required for the current land bank has been undertaken and future capital expenditures will mainly be driven by machinery replacement needs together with removing bottlenecks and improving the efficiency of the storage sites.

D8: Capital Expenditures 2007–2011, USD* million



Fixed Assets

Fixed assets of USD* 187.0 million predominantly comprise PP&E, namely buildings (mainly storage facilities), land held at acquisition cost as well as 100% owned machinery and equipment used in crop production. Costs for PP&E items have generally been incurred locally in Russian Roubles whereby the vast majority of the Company's fixed assets are denominated in the local currency.

Land

Land is recorded at acquisition cost. The Company believes Russian agricultural land remains undervalued, both in comparative terms and in relation to its inherent production potential. However, no revaluation of land has been made in the statement of financial position. As of December 31, 2011 the Company has 260 thousand hectares in full ownership out of a total of 318 thousand hectares under control, recorded at cost of USD* 58.0 million. Unlike other fixed assets, land does not depreciate in value over time. There is potential for a revaluation of Russian agricultural land going forward as the sector develops towards higher standards regarding both production and profitability as well as a more transparent and established secondary transaction market for farm land. Several larger transactions of Russian farmland have taken place during 2011 in proximate regions of Russia indicating valuations of USD* 700 to 1000 per hectare (please see page 17 for more details).



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Biological Assets

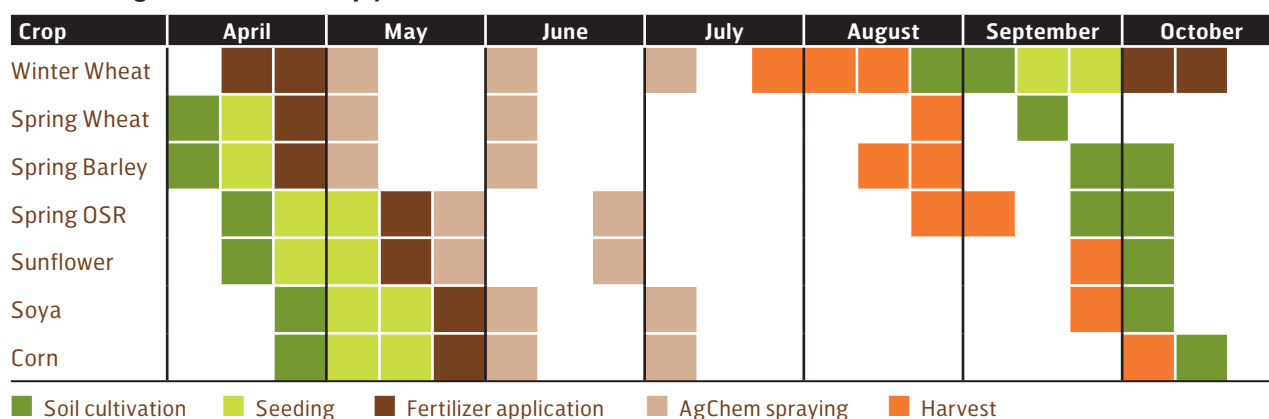
Biological assets are recorded in the statement of financial position as an estimated value of crops in fields. A way to look at biological assets is as a work in process (WIP) inventory. Depending at what stage of the growth cycle the crop is in, the value is estimated either by incurred costs for field works (cultivations, seeding, fertilizer spreading, herbicide spraying etc.) or an estimate of revenue (harvest volume and price per crop) less selling expenses. The revaluation of biological assets is performed in accordance with the requirements of IAS 41 Agriculture which states that a biological asset shall be measured on initial recognition and at each balance sheet date at its fair value less estimated point-of-sale costs.

Black Earth Farming values crops in the fields at incurred costs up until 30 June each year. At that point

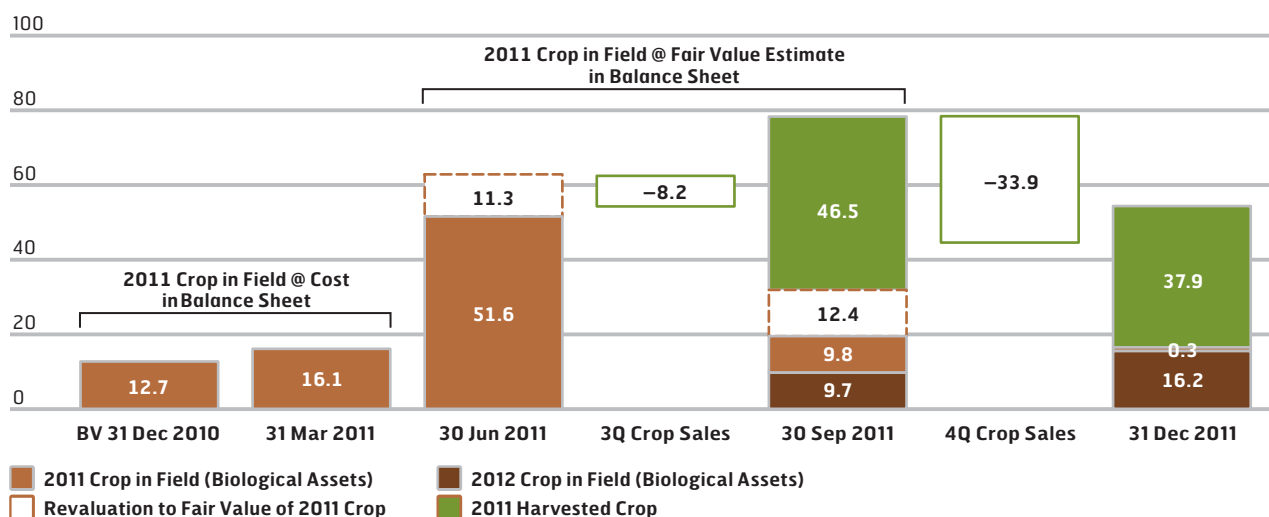
sufficient germination (biological transformation) has occurred, enabling estimates of crop yields and market prices less point-of-sale costs to determine an estimate of fair value at the time of harvest. The initial revenue estimate is attached a readiness percentage in the range 50–70% a/o 30 June depending on crop and time to harvest as significant risk to crop yield and price remain at the time. After harvest the crops are transferred to finished goods inventory where they are recorded at net realisable value determined by market prices.

As of the reporting date biological assets consisted mainly of costs incurred for seeding of winter crops to be harvested 2012 amounting to USD* 16.2 million. 2.5 thousand hectares of sunflowers were not harvested as of 31 December and is recorded in Biological Assets at estimated fair value of USD* 0.3 million.

D9: Farming Schedule (one crop year)



D10: 2011 Crop Value in Statement of Financial Position, USD* million



* The USD equivalent figures are provided for information purposes only and do not form part of the consolidated financial statements – refer to note 2 (d).

Inventory

212 thousand tons of crops harvested in 2011 were held in inventory as of 31 December 2011, with 55% of the volumes consisting of wheat, 14% corn and 12% sunflower. Domestic market prices (excluding 10% VAT) detailed in table T1 have been used to determine the net realisable value of USD* 37.9 million. In addition USD* 21.1 million of raw materials and consumables resulted in total inventory value (excluding biological assets) of USD* 59.3 million.

Financial Position

Inventories include both crops harvested 2011 and inputs to be used for 2012 crops which, together with winter crops in field to be harvested 2012, amounted to USD* 59.3 million. The Company had USD* 30.6 million in cash as of 31 December and interest bearing debt consisting of a SEK 710 million bond maturing in July 2014. The net debt position (total interest bearing debt less cash) as of December 31st 2011 amounted to USD* 76.0 million while the debt to equity ratio reached 55%.

Cash Flow

Farming cash flows are highly seasonal and can vary greatly from quarter to quarter. Cash flow from operations before changes in working capital amounted to USD* -10.3 million for FY 2011, mainly due to higher cash outflows relating to the 2011 harvest with 40% still in inventory as of 31 December 2011. Operational cash flow during Q4 2011 was positive as sales volumes were significantly higher than the first three quarters of the year. Working capital increased USD* 17.4 million and net investments into silo storage and machinery amounted to USD* 17.3 million. In addition bond interest payment of USD* 10.3 million as well as USD* 5.6 million in net bond repurchases resulted in a total cash outflow of USD* 60.6 million during 2011. In addition, a negative USD* -1.4 million foreign exchange translation effect, resulted in cash of USD* 30.6 million as of 31 December 2011.



* The USD equivalent figures are provided for information purposes only and do not form part of the consolidated financial statements – refer to note 2 (d).

Risks and Sensitivity Analysis

Black Earth Farming is exposed to a number of different risks as a land owner and crop producer. In addition the company meets challenges specific to its operating area and business model. These risks can be divided into three main categories: operational risk, market-related risks and financial risks.

2011 again highlighted the inherent volatility of the farming business as it relates to the large effect of crop volumes and prices on revenue and profitability. An initial dry spell hit the Company's operating regions and affected the yields of some of the Company's crops negatively. Crop prices both internationally and domestically also exhibited volatility during 2011 as the balance of supply and demand shifted causing prices to drop. BEF also experienced negative quality effects from wet harvesting conditions and internal storage and logistics inefficiencies that negatively affected prices. The events highlight the two key risks, volatility in crop yield and price, that the Company is exposed to as a commodity producer. In general BEF has a disadvantage concerning risk management compared to western farming businesses due to the current lack of price hedging possibilities in Russia as well as availability of extensive public or private crop trial data, irrigation or economical crop insurance practices. Several strategies were launched during 2011 to mitigate both these two key risk factors.

– Operational

Operational risks refer to risks related to the management of the business that are within the Company's control.

– Crop Yields

A range of factors affect the germination of crops in fields, some of which are within the Company's control. Applying agronomical best practices and timely field works include the key measures that Black Earth Farming is focused on by ensuring that the knowledge and best practices are transferred to field personnel via an efficient decision making process. In addition certain inputs and life science data such as seeds customized for the specific climatic conditions and soil characteristics are not widely available for some of Russia's key crops. Performing internal constraint free field trials of different seed varieties is a key company initiative to find and develop high performing varieties internally. Several other initiatives outlined under the section operational review are also underway to improve crop yield performance going forward.

– Infrastructure and Logistics

An important factor for Black Earth Farming is its ability to safely treat and store the production after harvest. Storage and transport infrastructure in Russia is outdated and inefficient wherefore the Company has invested in internal infrastructure, capable of covering the majority of crop storage needs. Previously production has been stored in third party facilities with losses linked to them since they are often mismanaged and the supply of facilities is limited during peak harvest periods. Rail transportation logistics also hampered the Company's export plans during 2011 and options are being evaluated regarding how to mitigate this risk going forward.

– Employees

The Group's management team consists of a few but increasing number of individuals and the loss of any key person or the inability to attract appropriate personnel could have an impact on the Group's performance. The success of the company depends on its ability to attract, retain and motivate appropriate managerial personnel with experience of the Russian agricultural market. Competition in Russia for personnel with relevant expertise is intense, due to the small number of qualified individuals.

– Market Related

Market-related risks primarily relates to risks associated with the outside world and the market, in other words, risks that the board and management only have a limited chance of influencing in the short term, but must nevertheless deal with in the longer-term planning of the business.

– Weather

i. Seasonal patterns

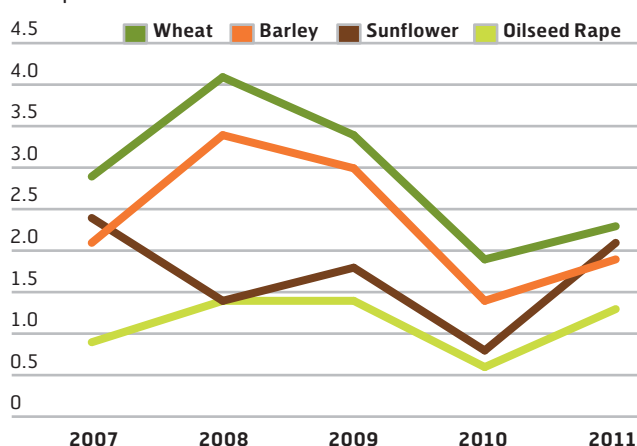
Weather conditions is a significant risk affecting Black Earth Farming as 100% of the Company's area is rain fed crop land. Poor seasonal weather conditions (whether too dry or too wet) and unpredictable climatic changes may adversely affect production. The company is continuously developing its agronomical practices and operational decision making relating to production in order to extend knowledge of timely field works to employees in the fields which can partially mitigate weather effects on crop yields. The inherent volatility relating to weather factors will be still be present but lifting crop yield potential and the ability to remove constraints to yields will over time reduce the sensitivity of results to seasonal weather.

* The USD equivalent figures are provided for information purposes only and do not form part of the consolidated financial statements – refer to note 2 (d).

ii. Climate change

Effects of global warming is expected to have a regional but not a global effect on food production according to the Food and Agriculture Organization (FAO) of the United Nations. Current research suggests that the potential for crop production will increase in temperate and northerly latitudes, while in parts of the tropics and subtropics it may decline. That would suggest a longer growing period for the company's operating region. A study by the U.S. National Oceanic and Atmospheric Administration on the cause of the 2010 heat wave that affected the Company's volumes severely, found it to be primarily due to a natural phenomenon called atmospheric blocking. This occurs when high atmospheric pressure builds up and refuses to budge, forcing any cool air and rains to detour around it. Black Earth Farming has however initiated a process of investigating the potential for irrigation in parts of its areas while crop insurance programs are also monitored.

D1: 5 Year Yield Development per Crop,
tons per hectare

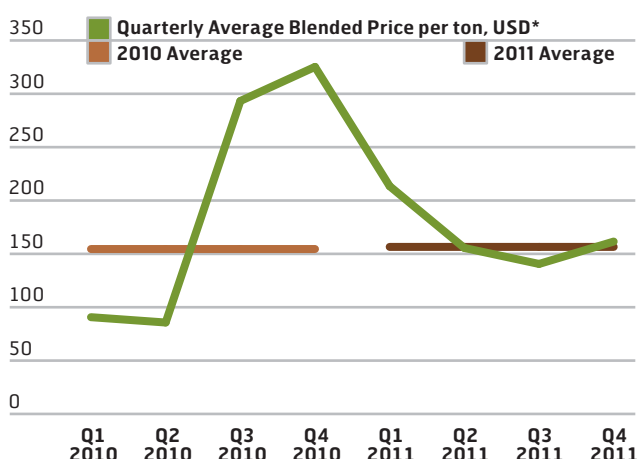


– Commodity Prices

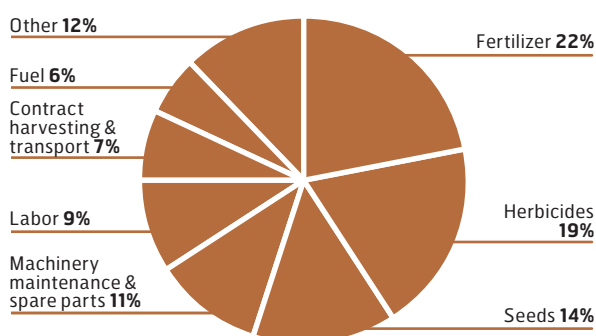
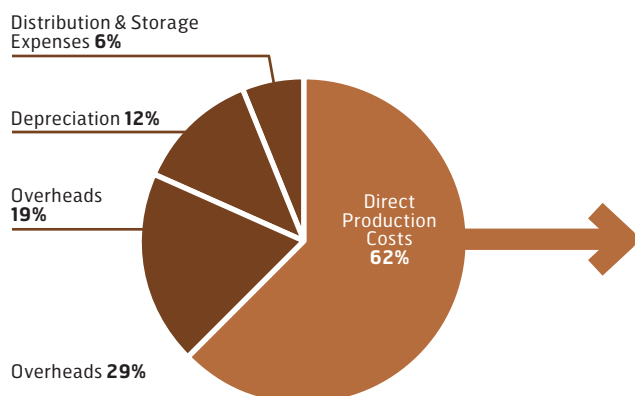
i. Crop Prices

Market prices of agricultural commodities are predominantly influenced by a variety of unpredictable factors which are beyond the control of the company, including weather, planting intentions, government (Russian and foreign) agricultural programs and policies, changes in global demand resulting from population growth and higher standards of living and global production of similar and competitive crops. Hedging activities to reduce volatility via physical future sales or financial options are sought, but the market for both remains underdeveloped in Russia where a majority of transactions are on a spot basis. A key initiative within this area is export sales to facilitate forward pricing as well as supply partnerships based on long term pricing contracts with both domestic and international counterparties.

D2: BEF Realized Price 2010–2011, USD*/ton



D3: Breakdown of Operating Costs (left) and Direct Production Costs (right), Production Year 2011



* The USD equivalent figures are provided for information purposes only and do not form part of the consolidated financial statements – refer to note 2 (d).

ii. Inputs

Fertilizers, seeds, herbicides and fuel are key inputs in the Company's production process and comprise a high share of the Company's total operating costs. These industries are all characterized by a relatively high level of consolidation where the number of potential suppliers are limited, thus impeding the company's purchasing power. A centralized procurement department consolidates all major purchase items to obtain the best pricing and terms available.

– Political and Regulatory Risk

Although reform has come a long way in Russia, the agricultural sector both in Russia and globally remains prone to government regulations and policies limiting free trade and affecting market prices. 2010 and 2011 saw Russia enact an export ban on grains as well as direct market interventions to reduce crop price volatility. Entry to the World Trade Organization during 2012 will likely reduce the probability of trade distortions. Domestic government support for selected sub sectors of Russian agriculture will however likely remain.

For more information on risks relating to land acquisition see note 33.

– Financial

The Group's financial risks are regulated in accordance with the Treasury Policy that has been adopted by the Board of Directors. Additional details regarding accounting principles and risks are given in notes 1, 3, 31 and 33.

– Financing risk

Financing risk refers to the risk of Black Earth Farming being unable to satisfy its need for new capital. As the Company has yet to generate cash flows from operations there has historically been a dependence of external financing.

– Liquidity risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. The Group's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions.

– Credit risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Group's investment securities. Most of the sales are made on a prepayment or cash on delivery basis wherefore counterparty or credit risk in relation to receivables is limited. The Group limits its exposure to credit risk by placing surplus funds on deposit with a variety of established banks in Russia and abroad.

– Interest rate risk

Changes in interest rates impact primarily loans and borrowings by changing the fair value of fixed rate debt. The Group adopts a policy of limiting its exposure to changes in interest rates by borrowing on a fixed rate basis. At the time of raising new loans or borrowings management uses its judgment to decide whether it believes that a fixed or variable rate would be more favorable to the Group over the expected period until maturity.

– Currency risk

The Group is exposed to currency risk on borrowings that are denominated in SEK versus the functional currency of the Group entities, primarily the Russian Rouble (RUR). Currency risk is not hedged.

T1: Sensitivity Analysis

Effect of potential changes on 2011 Net Loss

Item	10% increase USD* thousand	2011 Net Loss USD* thousand	% change
Revenues			
Volume (area and/or yield)	6.3	-34.2	16%
Price	6.3	-34.2	16%
Costs			
Personnel	2.1	-42.6	-5%
Net financial expense	1.5	-42.0	-4%
Fertilizer	1.4	-41.9	-3%
Capital Cost (Depreciation)	1.3	-41.8	-3%
Sprays	1.2	-41.7	-3%
Seed	0.9	-41.4	-2%
Fuel	0.4	-40.9	-1%
Other materials	0.3	-40.8	-1%

Foreign Exchange

USD* thousand	Net exposure		Sensitivity analysis Effect of 10% increase on	
	2011	2010	Equity	Profit or loss
USD/RUB	-0.6	23.2	-0.1	-0.1
EUR/RUB	5.5	22.3	0.6	0.6
SEK/RUB	-97.3	-66.2	-9.7	-9.7

* The USD equivalent figures are provided for information purposes only and do not form part of the consolidated financial statements – refer to note 2 (d).

Five Year Summary

Profit & Loss (million)	2007* RUR	2008* RUR	2009 RUR	2010 RUR	2011 RUR	2007 USD**	2008 USD**	2009 USD**	2010 USD**	2011 USD**
Revenue from sale of Goods and Services	383	699	2,395	1,430	2,067	11.9	21.7	74.4	44.4	64.2
Change		83%	243%	-40%	45%		83%	243%	-40%	45%
Total revenue and gains	522	852	2,283	1,928	2,499	16.2	26.4	70.9	59.9	77.6
Change		63%	168%	-16%	30%		63%	168%	-16%	30%
Gross profit/(loss)	243	315	-33	284	167	7.6	9.8	-1.0	8.8	5.2
Change		29%	-110%	-967%	-41%		29%	-110%	-967%	-41%
Operating profit/(loss)	-166	-791	-1,161	-827	-813	-5.2	-24.6	-36.1	-25.7	-25.2
Change		375%	47%	-29%	-2%		375%	47%	-29%	-2%
Profit/(loss) before income tax	-378	-738	-1,306	-1,232	-1,303	-11.7	-22.9	-40.6	-38.3	-40.5
Change		95%	77%	-6%	6%		95%	77%	-6%	6%
Net profit (loss)	-388	-734	-1,349	-1,171	-1,342	-12.0	-22.8	-41.9	-36.4	-41.7
Change		89%	84%	-13%	15%		89%	84%	-13%	15%
Basic profit(loss) per share (RUR/USD**)	-4.86	-5.91	-10.83	-9.39	-10.77	-0.15	-0.18	-0.34	-0.29	-0.33
Change		22%	83%	-13%	15%		22%	83%	-13%	15%
Diluted profit(loss) per share (RUR/USD**)	-4.86	-5.91	-10.83	-9.39	-10.77	-0.15	-0.18	-0.34	-0.29	-0.33
Change		22%	83%	-13%	15%		22%	83%	-13%	15%

Cash Flows (million)	RUR	RUR	RUR	RUR	RUR	USD**	USD**	USD**	USD**	USD**
Cash flows utilised by operating activities	-727	-1,941	5	-773	-1,224	-22.6	-60.3	0.2	-24.0	-38.0
Cash flows utilised by investing activities	-2,603	-1,486	-1,259	-741	-547	-80.8	-46.1	-39.1	-23.0	-17.0
Cash flows from financing activities	8,870	401	-352	1,291	-181	275.5	12.5	-10.9	40.1	-5.6

Financial position and return (million/%)	RUR	RUR	RUR	RUR	RUR	USD**	USD**	USD**	USD**	USD**
Total assets	12,033	12,543	11,050	11,282	10,153	373.8	389.6	343.2	350.4	315.4
Property, plant and equipment	2,601	4,408	5,531	5,922	6,020	80.8	136.9	171.8	183.9	187.0
Cash and cash equivalents	7,374	4,605	3,211	2,983	985	229.0	143.0	99.8	92.6	30.6
Total equity	9,796	10,055	8,744	7,605	6,289	304.3	312.3	271.6	236.2	195.3
Equity per share	81.9	80.7	70.2	60.0	70.2	18.4	18.1	15.7	13.4	15.7
Operating cash flows per share	-6.1	-15.6	0.0	-6.2	-9.8	-1.4	-3.5	0.0	-1.4	-2.2
Dividend per share	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Debt/Equity	20%	19%	21%	44%	55%	20%	19%	21%	44%	55%
Equity/Assets	81%	80%	79%	67%	62%	81%	80%	79%	67%	62%
Non-current loans and borrowings	1,900	1,936	1,838	3,297	3,266	59.0	60.1	57.1	102.4	101.4
Gross margin ¹	27%	47%	Neg.	15%	6.7%	27%	47%	Neg.	15%	6.7%
Operating profit margin	Neg.	Neg.	Neg.	Neg.	Neg.	Neg.	Neg.	Neg.	Neg.	Neg.
Net profit margin	Neg.	Neg.	Neg.	Neg.	Neg.	Neg.	Neg.	Neg.	Neg.	Neg.
Return on Equity	Neg.	Neg.	Neg.	Neg.	Neg.	Neg.	Neg.	Neg.	Neg.	Neg.

1. Gross margin less gain on revaluation of biological assets

Production & Sales	2007	2008*	2009	2010	2011
Harvested area (ha)	52,781	138,965	183,042	179,767	227,651
Year-on-year change		163%	32%	-2%	27%
Commercial Gross Harvest (tons)	109,724	437,127	531,305	231,404	533,576
Year-on-year change		298%	22%	-56%	131%
Volumes Sold (tons)	58,274	117,066	617,360	277,694	399,473
Year-on-year change		101%	427%	-55%	-55%
End of Period Inventory (tons)	42,459	335,600	203,401	129,124	211,914
% of Commercial harvest	39%	77%	38%	56%	40%
Average Realised Price per Ton (USD**)	191	173	118	155	157
Year-on-year change		-9%	-32%	31%	31%

Land Holding (thousand hectares)	2007	2008	2009	2010	2011
Land under Control	289	317	320	328	318
Year-on-Year change, %		10%	1%	2%	-3%
Land in Full Ownership	29	95	216	250	260
Year-on-Year change, %		226%	127%	16%	4%
Land in Ownership Registration Process	247	214	75	30	18
Year-on-Year change, %		-13%	-65%	-60%	-40%
Land in Long Term Lease	13	8	39	48	40
Year-on-Year change, %		-37%	381%	23%	-17%

* The 2007 and 2008 financial statements have not been restated to reflect the changed accounting policy regarding mark to market of crop inventory and are not fully comparable – refer to note 5.

** The USD equivalent figures are provided for information purposes only and do not form part of the consolidated financial statements – refer to note 2 (d).



The Black Earth Farming share

Black Earth Farming share information

<i>Exchange name:</i>	Nasdaq OMX Stockholm	<i>Exchange short name:</i>	BEF SDB
<i>Listed form:</i>	Swedish Depository Receipt ("SDR")	<i>Reuters ticker:</i>	BEFsdb.ST
<i>CCY:</i>	SEK	<i>Bloomberg ticker:</i>	BEFSDB:SS
<i>Trading lot:</i>	1	<i>ISIN code:</i>	SE0001882291
<i>Outstanding shares:</i>	124,601,667	<i>Sector:</i>	Agricultural Products

Market listing

As of June 2009 trading in Black Earth Farming's shares takes place on Nasdaq OMX Stockholm and before that on the OMX First North in Stockholm since the IPO in December 2007. The Company's shares are listed in the form of Swedish Depository Receipts. Black Earth Farming Limited has a custodial arrangement with Pareto Öhman whereby Pareto Öhman, on behalf of shareholders, will hold common shares in the Company in a depository account and issue one Swedish Depository Receipt ("SDR") for each Share deposited. The SDRs are registered with Euroclear (former VPC AB). An SDR entails the same right to a dividend as the underlying Share, and an SDR holder has the same right to vote at General Meetings as a shareholder. In order to attend a General Meeting it is, however, required that the holder of SDRs follows the instructions from the custodian bank.

Voting rights

Each Share/SDR carries the right to cast one vote on all matters submitted to a vote of the shareholders.

Dividends and dividend policy

The profits of the Company available for dividends and resolved to be distributed shall be distributed pro-rata to the holders of SDRs in accordance with their respective share in the assets and profits of the Company. The Company's general meeting may declare dividends accordingly, but no dividends shall exceed the amount recommended by the Board. No dividends shall be payable otherwise than in accordance with the 1991 Law and the Articles of Association. There are no fixed dates on which entitlement to dividends arises.

Subject to the provisions of the 1991 Law and the Articles of Association, the Board may from time to time pay to holders of SDRs such interim dividends as deemed to be justified by the profits of the Company.

No dividends or other monies payable in respect of an SDR shall bear interest as against the Company unless otherwise provided by the rights attached to the SDRs. Any dividends which have remained unclaimed for a period of ten years from its due date of payment shall, if the Board so resolves, be forfeited and shall cease to remain as a debt for the Company and shall thereafter belong to the Company. The Company has never declared nor paid any cash dividends on its capital stock and currently intends to retain future earnings to fund the development and growth of its business.

Ownership structure

At year end 2011 Black Earth Farming had about 8,600 shareholders, compared to 8,350 at year end 2010. The 5 largest shareholders accounted for 62.9% of the number of shares and voting rights compared to 63.8% in 2010.

Trading

A total of 30.1 million SDRs were traded during the period 1 January 2011–30 December 2011, corresponding to a value of SEK 760.6 million. On average 122 thousand SDRs were traded each business day, corresponding to an average value per day of SEK 3.6 million.

Market Capitalization

Black Earth Farming's market capitalization at 31 December 2011 was SEK 1,725 million compared to SEK 3,302 million at 31 December 2010.

Analysts Covering Black Earth Farming

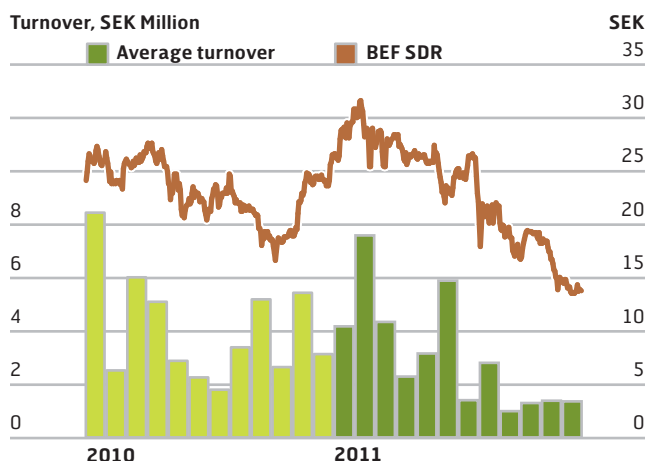
Pareto Öhman Fondkommission AB

Sergej Kazatchenko, tel: +46-8-402 50 00

Renaissance Capital

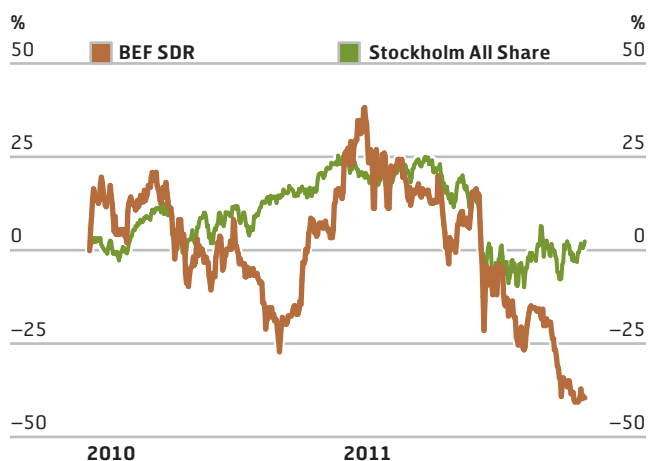
Konstantin Fastovets, Tel +38 (044) 492-7385

**D1: BEF 2010–2011 share price (in SEK)
and monthly average turnover (in SEK Million)**



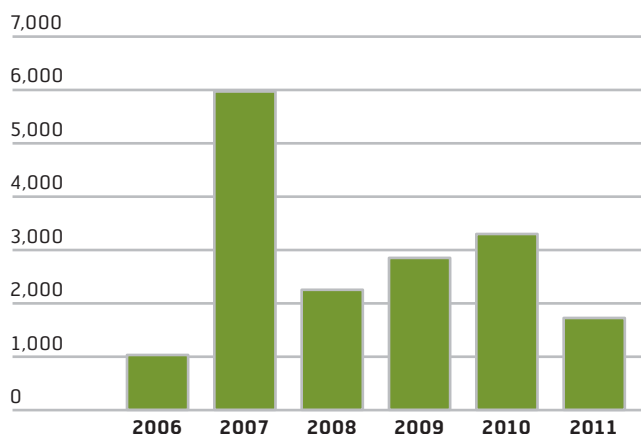
Source: NASDAQ OMX

**D2: BEF 2010–2011 share performance
vs index (in %)**



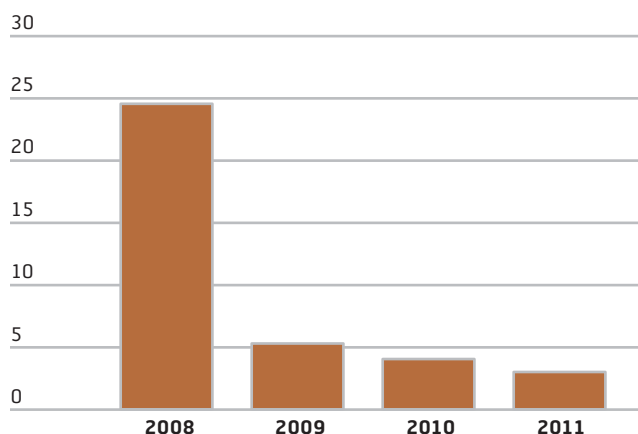
Source: NASDAQ OMX

D3: Market capitalization as per 31 December, MSEK



Source: NASDAQ OMX

D4: Average daily traded volume, MSEK



Source: NASDAQ OMX

T1: 5 largest shareholders at 31 December 2010

Owner	Holding, Shares/SDRs	Holding, %
1 Investment AB Kinnevik	31,087,097	24.9%
2 Vostok Nafta Investment Ltd	30,888,704	24.8%
3 Alecta Pensionsförsäkring	11,600,000	9.3%
4 Länsförsäkringar	3,785,767	3.0%
5 NTC Varma Mutual Pension Inc Corp	2,100,000	1.7%
5 largest owners	79,461,568	63.8%
Other, approx 8,350 shareholders	45,140,099	36.2%
Total outstanding	124,601,667	100.0%

Source: Euroclear Sweden share registry & shareholders' reference

T2: 5 largest shareholders at 31 December 2011

Owner	Holding, Shares/SDRs	Holding, %
1 Investment AB Kinnevik	31,087,097	24.9%
2 Vostok Nafta Investment Ltd	30,888,704	24.8%
3 Alecta Pensionsförsäkring	11,600,000	9.3%
4 Holberg Funds	2,709,290	2.2%
5 NTC Varma Mutual Pension Inc Corp	2,100,000	1.7%
5 largest owners	78,385,091	62.9%
Other, approx 8,600 shareholders	46,216,576	37.1%
Total outstanding	124,601,667	100.0%

Source: Euroclear Sweden share registry & shareholders' reference



Black Earth Farming Limited and Subsidiaries
Consolidated Financial Statements
as at and for the year ended 31 December 2011

Contents

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Statement of management responsibilities

For the preparation and approval of the consolidated financial statements for the year ended 31 December 2011

The Board of Directors declare that the consolidated financial statements have been prepared in accordance with IFRS and give a true and fair view of the Group's financial position and results of operations. Any other information presented in this annual report relating to operations, financial position and results of operations for the Group and the Parent Company, including description of material risks and uncertainties is the responsibility of Management and has been approved by the Board of Directors. The Consolidated Financial Statements and related financial information reflect amounts which must, of necessity, be based upon informed estimates and judgments of Management with appropriate consideration to materiality. All financial information contained in the annual report is consistent, where appropriate, with that contained in the Consolidated Financial Statements.

The Company has developed and maintains systems of internal controls, policies and procedures in order to provide reasonable assurance as to the reliability of the financial records and the safeguard of assets. The Company's auditors Deloitte have examined the Consolidated Financial State-

ments and they have expressed an opinion on these statements. Their report is included next to the Consolidated Financial Statements.

The Board of Directors has established an Audit Committee. The Audit Committee reviews with Management and the external auditors any significant financial reporting issues, the financial statements, and any other matters of relevance to the parties. The audit committee shall meet as regularly as deemed necessary by the Board, but it should be at least four times a year, in connection with the release of the Company's interim and full year financial statements. The external auditors have unrestricted access to the Company.

A Corporate Governance Report, a report on Black Earth Farming's application of the Swedish Code of Corporate Governance, together with a Report on the Internal control, is included in the Annual Report. The Corporate Governance Report and the Report on the Internal control have not been subject to review by the Group's auditors.

The financial statements were approved by the Board of Directors and authorized for issue on 11 April 2012.

Per Brilioth
Chairman

Sture Gustavsson
Executive Director

Alex Gersh
Non-executive Director

Henrik Persson
Non-executive Director

Poul Schroeder
Non-executive Director

Magnus Unger
Non-executive Director

Richard Warburton
Executive Director and CEO

* The USD equivalent figures are provided for information purposes only and do not form part of the consolidated financial statements – refer to note 2 (d).

Independent Auditors' Report

To the members of Black Earth Farming Limited

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of Black Earth Farming Limited and its subsidiaries, which comprise the consolidated statement of financial position as at 31 December 2011, and the consolidated statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information. The consolidated financial statements are included in the printed version of this document on pages 46–73.

This report is made solely to the company's members, as a body, in accordance with Article 113A of the Companies (Jersey) Law 1991. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Directors' Responsibility for the Consolidated Financial Statements

The Directors are responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as the Directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial

statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Directors, as well as evaluating the overall presentation of the consolidated financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the financial position of Black Earth Farming Limited and its subsidiaries as at December 31, 2011, and of their financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards and have been properly prepared in accordance with the Companies (Jersey) Law 1991.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies (Jersey) Law 1991 requires us to report to you if, in our opinion:

- proper accounting records have not been kept by the parent company, or proper returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or
- we have not received all the information and explanations we require for our audit.

Emphasis of Matter

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The supplementary United States dollar amounts, which are presented solely for the convenience of users as described in note 2 (d), do not form part of the consolidated financial statements and are unaudited.

Svante Forsberg
Deloitte AB
Stockholm, Sweden
11 April 2012

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Consolidated Statement of Comprehensive Income/(Loss)

For the year ended 31 December 2011

In thousands of	Notes	RUR 12m. 2011	RUR 12m. 2010	USD* 12m. 2011	USD* 12m. 2010
Continuing operations					
Revenue		2,067,053	1,430,038	64,202	44,416
Gain on revaluation of biological assets.....		516,066	379,145	16,029	11,776
Change in net realisable value of agricultural produce after harvest.....		(83,786)	118,835	(2,602)	3,691
Total revenue and gains.....	8	2,499,333	1,928,018	77,629	59,883
Cost of sales.....	9	(2,332,213)	(1,644,052)	(72,438)	(51,063)
Gross profit.....		167,120	283,966	5,191	8,820
Distribution expenses.....	10	(271,485)	(142,157)	(8,432)	(4,415)
General and administrative expenses.....	11	(657,211)	(659,425)	(20,413)	(20,482)
Taxes other than income.....	13	(59,525)	(66,934)	(1,849)	(2,079)
Government grants.....		62,459	72,498	1,940	2,252
Impairment of goodwill and PPE.....	14	1,413	(255,456)	44	(7,934)
Other income and expenses.....	15	(55,667)	(59,757)	(1,729)	(1,856)
Operating loss.....		(812,896)	(827,265)	(25,248)	(25,694)
Financial income.....	16	36,634	30,413	1,138	945
Financial expenses.....	16	(526,434)	(434,960)	(16,352)	(13,510)
Loss before income tax.....		(1,302,696)	(1,231,812)	(40,462)	(38,259)
Income tax benefit.....	17	(39,412)	61,250	(1,224)	1,902
Loss for the period and total comprehensive loss attributable to owners of the parent.....		(1,342,108)	(1,170,562)	(41,686)	(36,357)
Loss per share (amounts are indicated in)					
		RUR	RUR	USD*	USD*
Loss per share, basic and diluted.....	28	(10.77)	(9.39)	(0.33)	(0.29)

The consolidated statement of comprehensive income / (loss) is to be read in conjunction with the notes to and forming part of the consolidated financial statements set out on pages 50 to 73.

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Consolidated Statement of Financial Position

As at 31 December 2011

In thousands of	Notes	RUR 31-Dec-11	RUR 31-Dec-10	USD* 31-Dec-11	USD* 31-Dec-10
ASSETS					
Non-current assets					
Property, plant and equipment.....	19	6,019,548	5,922,255	186,965	183,943
Other intangible assets.....	21	6,845	10,336	213	321
Financial assets.....	22	—	1,431	—	44
Biological assets (livestock).....	23	23,514	19,740	730	613
Other non-current assets.....	24	88,646	125,094	2,753	3,885
Deferred tax assets.....	18	111,766	128,352	3,471	3,987
Total non-current assets.....		6,250,319	6,207,208	194,132	192,793
Current assets					
Inventories.....	25	1,910,709	1,265,484	59,346	39,306
Biological assets (crop production).....	23	532,598	409,969	16,542	12,733
Trade and other receivables.....	26	474,074	416,609	14,725	12,940
Cash and cash equivalents.....	27	985,452	2,982,817	30,608	92,645
Total current assets.....		3,902,833	5,074,879	121,221	157,624
Total assets.....		10,153,152	11,282,087	315,353	350,417
EQUITY AND LIABILITIES					
Equity					
Share capital.....		32,921	32,921	1,023	1,023
Share premium.....		11,275,731	11,275,731	350,220	350,220
Reserves.....		178,189	152,556	5,534	4,738
Accumulated deficit.....		(5,197,921)	(3,855,813)	(161,446)	(119,760)
Total equity attributable to owners of the parent.....	28	6,288,920	7,605,395	195,331	236,221
LIABILITIES					
Non-current liabilities					
Non-current loans and borrowings.....	29	3,265,713	3,297,387	101,432	102,416
Deferred tax liabilities.....	18	42,153	19,618	1,309	609
Total non-current liabilities.....		3,307,866	3,317,005	102,741	103,025
Current liabilities					
Current loans and borrowings.....	29	165,166	167,422	5,130	5,200
Trade and other payables.....	30	391,200	192,265	12,151	5,971
Total current liabilities.....		556,366	359,687	17,281	11,171
Total liabilities.....		3,864,232	3,676,692	120,022	114,196
Total equity and liabilities.....		10,153,152	11,282,087	315,353	350,417

The consolidated statement of financial position is to be read in conjunction with the notes to and forming part of the consolidated financial statements set out on pages 50 to 73.

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Consolidated Statement of Changes in Equity

For the year ended 31 December 2011

In thousands of	RUR	RUR	RUR	RUR	RUR
	Share capital	Share premium	Equity-settled employee benefits reserve	Retained earnings/ (accumulated deficit)	Total equity attributable to owners of the parent
Balance at 1 January 2010	32,921	11,275,731	126,930	(2,691,651)	8,743,931
Total comprehensive income for the year.....	—	—	—	(1,294,247)	(1,294,247)
Recognition of share-based payments (note 28 (d))	—	—	32,026	—	32,026
Cancellation of warrants	—	—	(6,400)	6,400	—
Balance at 31 December 2010, as originally reported ...	32,921	11,275,731	152,556	(3,979,498)	7,481,710
Restatement (note 5)	—	—	—	123,685	123,685
Balance at 31 December 2010, restated	32,921	11,275,731	152,556	(3,855,813)	7,605,395
Total comprehensive income for the year.....	—	—	—	(1,342,108)	(1,342,108)
Recognition of share-based payments (note 28 (d))	—	—	25,633	—	25,633
Balance as at 31 December 2011	32,921	11,275,731	178,189	(5,197,921)	6,288,920

In thousands of	USD*	USD*	USD*	USD*	USD*
	Share capital	Share premium	Equity-settled employee benefits reserve	Retained earnings/ (accumulated deficit)	Total equity attributable to owners of the parent
Balance as at 1 January 2010	1,023	350,220	3,942	(83,602)	271,583
Total comprehensive income for the year.....	—	—	—	(40,199)	(40,199)
Recognition of share-based payments (note 28 (d))	—	—	995	—	995
Cancellation of warrants	—	—	(199)	199	—
Balance at 31 December 2010, as originally reported	1,023	350,220	4,738	(123,602)	232,379
Restatement (note 5)	—	—	—	3,842	3,842
Balance at 31 December 2010, restated	1,023	350,220	4,738	(119,760)	236,221
Total comprehensive income for the year.....	—	—	—	(41,686)	(41,686)
Recognition of share-based payments (note 28 (d))	—	—	796	—	796
Balance as at 31 December 2011	1,023	350,220	5,534	(161,446)	195,331

The consolidated statement of changes in equity is to be read in conjunction with the notes to and forming part of the consolidated financial statements set out on pages 50 to 73.

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Consolidated Statement of Cash Flows

For the year ended 31 December 2011

In thousands of	Notes	RUR 12m. 2011	RUR 12m. 2010	USD* 12m. 2011	USD* 12m. 2010
CASH FLOWS FROM OPERATING ACTIVITIES					
Loss for the period		(1,342,108)	(1,170,562)	(41,686)	(36,357)
<i>Adjustments for:</i>					
Income tax expense/(benefit)		39,412	(61,250)	1,224	(1,902)
Depreciation and amortisation		425,401	361,964	13,213	11,243
Bad debt expense		17,264	10,822	536	336
Foreign exchange loss		168,210	115,932	5,225	3,601
Interest income		(36,634)	(30,413)	(1,138)	(945)
Interest expense		345,203	286,836	10,723	8,909
Loss on disposal of property, plant and equipment and intangible assets		1,047	18,852	33	586
Warrant expense		25,633	32,026	796	995
Loss on land write-off	19	9,832	–	305	–
Impairment of PPE/(reversal of land reserve)	19, 20	(1,413)	255,456	(44)	7,934
Change in value of biological assets and inventory	8	(432,280)	(497,980)	(13,427)	(15,467)
Effect of revaluations on COGS	9	448,414	207,987	13,928	6,460
		(332,019)	(470,330)	(10,312)	(14,607)
Movements in working capital:					
Increase in inventories		(588,384)	(103,980)	(18,275)	(3,230)
Decrease/(increase) in biological assets		(139,927)	14,590	(4,345)	453
Decrease/(increase) in trade and other receivables		(41,100)	99,036	(1,277)	3,076
Increase/(decrease) in trade payables and other short-term liabilities		208,156	(60,084)	6,465	(1,866)
Cash used in operations		(893,274)	(520,768)	(27,744)	(16,174)
Interest paid		(330,202)	(249,795)	(10,256)	(7,759)
Income tax paid		(380)	(2,673)	(11)	(83)
Net cash used in operating activities		(1,223,856)	(773,236)	(38,011)	(24,016)
CASH FLOWS FROM INVESTING ACTIVITIES					
Interest received		42,648	32,726	1,325	1,016
Acquisition of land plots		(45,906)	(70,049)	(1,426)	(2,176)
Acquisition of property, plant and equipment		(556,605)	(715,063)	(17,288)	(22,210)
Proceeds from disposal of property, plant and equipment		16,445	15,617	511	485
Acquisition of intangible assets		(4,367)	(5,231)	(136)	(162)
Proceeds from disposal of securities		332	1,095	10	34
Net cash used in investing activities		(547,453)	(740,905)	(17,004)	(23,013)
CASH FLOWS FROM FINANCING ACTIVITIES					
Proceeds from the issue of bonds/selling bonds	29	87,303	1,905,622	2,712	59,188
Repurchase of bonds	29	(268,330)	(614,285)	(8,334)	(19,079)
Net cash used in/(from) financing activities		(181,027)	1,291,337	(5,622)	40,109
Net decrease in cash and cash equivalents		(1,952,336)	(222,804)	(60,637)	(6,920)
Cash and cash equivalents at beginning of year		2,982,817	3,211,219	92,645	99,739
Effect of exchange rate fluctuations on cash and cash equivalents		(45,029)	(5,598)	(1,400)	(174)
Cash and cash equivalents at end of the period	27	985,452	2,982,817	30,608	92,645

The consolidated statement of cash flows is to be read in conjunction with the notes to and forming part of the consolidated financial statements set out on pages 50 to 73.

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Notes to the Consolidated Financial Statements

For the year ended 31 December 2011

1 Background

(a) Organisation and operations

Black Earth Farming Limited (the "Company") is a limited liability company incorporated in Jersey, Channel Islands, on 20 April 2005. The Company is the holding company for a number of legal entities established under the legislation of Cyprus and the Russian Federation. Those entities are together referred to as the "Group" (note 36).

The Company's registered office is 8 Church Street, St. Helier, Jersey, JE4 0SG, Channel Islands.

The Group is involved in the acquisition and subsequent management of agricultural companies in Russia. The Group's activities include farming, production of crops and dairy produce and the distribution of related products in the Russian Federation. The Group commenced operations in 2005. The majority of the subsidiaries were established in 2006 and have limited activities.

(b) Russian business environment

Emerging markets such as Russia are subject to different risks than more developed markets, including economic, political and social, and legal and legislative risks. As has happened in the past, actual or perceived financial problems or an increase in the perceived risks associated with investing in emerging economies could adversely affect the investment climate in Russia and Russia's economy in general.

Laws and regulations affecting businesses in Russia continue to change rapidly. Tax, currency and customs legislation within Russia are subject to varying interpretations, and other legal and fiscal impediments contribute to the challenges faced by entities currently operating in Russia. The future economic direction of Russia is heavily influenced by the economic, fiscal and monetary policies adopted by the government, together with developments in the legal, regulatory, and political environment.

The global financial system continues to exhibit signs of deep stress and many economies around the world are experiencing lesser or no growth than in prior years. Additionally there is increased uncertainty about the creditworthiness of some sovereign states in the Eurozone and financial institutions with exposure to the sovereign debt of such states. These conditions could slow or disrupt Russia's economy, adversely affect the Group's access to capital and cost of capital for the Group and, more generally, its business, results of operations, financial condition and prospects.

Because Russia produces and exports large volumes of oil and gas, Russia's economy is particularly sensitive to the price of oil and gas on the world market which has fluctuated significantly during 2011 and 2010.

(c) Financial condition and going concern

Over recent years the Group has expanded rapidly by acquiring agricultural land, elevators and equipment throughout the Russian Federation. During the year ended 31 December 2011 the Group's net assets decreased from RUR 7,605 million to RUR 6,289 million and it suffered a loss for the year of RUR 1,342 million (2010: RUR 1,171 million).

Management of the Group is adopting the following action plans to enhance the Group's financial position and improve its operating activities to achieve profitability:

- minimizing acquisition activity and focusing on organic growth through improved operational efficiencies;
- seeking to secure enhanced trading terms and conditions from suppliers to improve its profitability and working capital position;
- effect cost reductions in its administrative and back office functions through a review of the central services function and through legal entity consolidation;
- continuing to explore and develop various risk management instruments pertaining to sales of future harvest; and

- continuing to develop costs reduction programs through further consolidation of purchasing activities and negotiating better terms with major providers of goods and services.

Depending on the Group's future strategy the Group may need to raise funds in 2012, and the board and management are currently assessing those strategies and any financing implications each of those strategies may have. The Group continuously studies various funding options and has received support for financing of potential shortfalls during 2012. Additionally, management and the board are confident that the Group will be able to reach profitability and generate positive cash flow whilst meeting its obligations as they fall due and accordingly believe it is appropriate to prepare the Group's consolidated financial statements on a going concern basis.

2 Basis of preparation

(a) Statement of compliance

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRSs") as adopted by the European Union.

(b) Basis of preparation

The consolidated financial statements are prepared on the historical cost basis, except for biological assets measured at fair value less estimated point-of-sale costs.

(c) Functional and presentation currency

The currency of the Russian Federation is the Russian Rouble ("RUR") which is the functional currency of the Group's Russian subsidiaries and is the currency in which these consolidated financial statements are presented. The Group's main activities are RUR denominated. All financial information presented in RUR has been rounded to the nearest thousand.

(d) Convenience translation

In addition to presenting the consolidated financial statements in RUR, supplementary information in United States dollars ("USD") has been presented for the convenience of users of the consolidated financial statements.

All amounts in the consolidated financial statements, including comparatives, are translated from RUR to USD at the closing exchange rate at 31 December 2011 of RUR 32.1961 to USD 1. All financial information in USD has been rounded to the nearest thousand. The USD equivalent figures are provided for information purposes only and do not form part of the consolidated financial statements.

3 Significant accounting policies

The following significant accounting policies have been consistently applied in the preparation of these consolidated financial statements.

(a) Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company (its subsidiaries).

Subsidiaries

Subsidiaries are entities controlled by the Group. Control exists when the Group has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that are currently exercisable are taken into account. The financial statements of sub-

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subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases. The accounting policies of subsidiaries have been changed when necessary to align them with the policies adopted by the Group.

Transactions eliminated on consolidation

Intra-group balances and transactions, and any unrealized income and expenses arising from intra-group transactions, are eliminated in preparing the consolidated financial statements.

(b) Business combinations

Acquisition of subsidiaries and businesses are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition-date fair values of the assets transferred by the Group, liabilities incurred by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. Acquisition-related costs are recognised in profit or loss as incurred.

At the acquisition date, the identifiable assets acquired and the liabilities assumed are recognised at their fair value at the acquisition date, except for:

- deferred tax assets or liabilities and liabilities or assets related to employee benefit arrangements are recognised and measured in accordance with IAS 12 Income Taxes and IAS 19 Employee Benefits respectively;
- liabilities or equity instruments related to share-based payment arrangements of the acquiree or share-based payment arrangements of the Group entered into to replace share-based payment arrangements of the acquiree are measured in accordance with IFRS 2 Share-based Payment at the acquisition date; and
- assets (or disposal groups) that are classified as held for sale in accordance with IFRS 5 Non-current Assets Held for Sale and Discontinued Operations are measured in accordance with that Standard.

Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the acquirer's previously held interest in the acquiree (if any) over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed. If, after reassessment, the net of the acquisition-date amounts of the identifiable assets acquired and liabilities assumed exceeds the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree and the fair value of the acquirer's previously held interest in the acquiree (if any), the excess is recognised immediately in profit and loss as a bargain purchase gain.

If the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, the Group reports provisional amounts for the items for which the accounting is incomplete. Those provisional amounts are adjusted during the measurement period (see below), or additional assets or liabilities are recognised, to reflect new information obtained about facts and circumstances that existed as of the acquisition date that, if known, would have affected the amounts recognised as of that date.

The measurement period is the period from the date of acquisition to the date the Group obtains complete information about facts and circumstances that existed as of the acquisition date – and is subject to a maximum of one year.

(c) Goodwill

Goodwill is initially recognised as an asset at cost and is subsequently measured at cost less any accumulated impairment losses.

For the purpose of impairment testing, goodwill is allocated to each of the Group's cash-generating units expected to benefit from the synergies of the combination.

A cash-generating unit to which goodwill has been allocated is tested for impairment annually, or more frequently when there is an indication that the unit may be impaired. If the recoverable amount of the cash-generating unit is less than the carrying amount, the

impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro-rata based on the carrying amount of each asset in the unit. Any impairment loss for goodwill is recognised directly in profit and loss in the consolidated statement of comprehensive income. An impairment loss recognised for goodwill is not reversed in a subsequent period.

(d) Foreign currency transactions

For the purpose of the consolidated financial statements, the results and financial position of each Group entity are expressed in RUR, which is the presentation currency of the consolidated financial statements.

Transactions in foreign currencies are translated to the respective functional currencies of Group entities using exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to the functional currency using the exchange rate at that date. Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are translated to the functional currency using the exchange rate at the date that the fair value was determined.

Foreign currency differences arising in translation are recognised in profit or loss.

(e) Financial instruments

Non-derivative financial instruments comprise investments in debt securities, trade and other receivables, cash and cash equivalents, loans and borrowings, and trade and other payables.

Non-derivative financial instruments are recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition non-derivative financial instruments are measured as described below.

Cash and cash equivalents comprise cash balances and call deposits. Call deposits have a short maturity of less than three months and are subject to an insignificant risk of changes in value.

Accounting for financial income and expenses is discussed in note 3 (q) below.

Held-to-maturity investments

If the Group has the positive intent and ability to hold debt securities to maturity, then they are classified as held-to-maturity. Held-to-maturity investments are measured at amortized cost using the effective interest method, less any impairment losses.

Loans and receivables

Trade receivables, loans and other receivables that have fixed or determinable payments that are not quoted in an active market are classified as loans and receivables. Loans and receivables are measured at amortised cost using the effective interest method, less any impairment. Interest income is recognised by applying the effective interest rate, except for short-term receivables when the recognition of interest would be immaterial.

Other

Other non-derivative financial instruments are measured at amortized cost using the effective interest method, less any impairment losses. Investments in equity securities that are not quoted on a stock exchange and where fair value cannot be estimated on a reasonable basis by other means are stated at cost less impairment losses.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial instrument and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees on points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial instrument, or, where appropriate, a shorter period.

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(f) Property, plant and equipment and Land

Owned assets

Items of property and equipment are measured at cost less accumulated depreciation and impairment losses.

Cost includes expenditure that is directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials, direct labor, and any other costs directly attributable to bringing the asset to a working condition for its intended use, and the costs of dismantling and removing the items and restoring the site in which they are located. Purchased software that is integral to the functionality of the related equipment is capitalized as part of that equipment.

When parts of an item of property and equipment have different useful lives, they are accounted for as separate items (major components) of property and equipment.

Gains and losses on disposal of an item of property, plant and equipment are recognised net in other income in profit and loss.

Repairs and maintenance

The cost of replacing part of an item of property, plant and equipment is recognised in the carrying amount of the item if it is probable that future economic benefits embodied within the part will flow to the Group and its cost can be measured reliably. The carrying amount of the replaced part is derecognized. The costs of day-to-day servicing of property, plant and equipment are recognised in profit or loss as incurred.

Depreciation

Depreciation is recognised in profit and loss on a straight-line basis over the estimated useful lives of each item of property, plant and equipment. Leased assets are depreciated over the shorter of the lease term and their useful lives unless it is reasonably certain that the Group will obtain ownership by the end of the lease term.

The estimated useful lives for the current and comparative periods are as follows:

– Buildings	10 to 30 years
– Machinery and equipment	5 to 10 years
– Vehicles	3 to 7 years
– Fixtures and fittings	1 to 5 years

Depreciation methods, useful lives and residual values are reassessed at each reporting date, with the effect of any changes in accounting estimate recognised on a prospective basis.

Land

Land is not depreciated.

The Group was focused on land acquisition. The process of registration of the ownership is long and involves many different participants (up to 300 individuals as sellers of 1 thousand hectares of land). The Group has a risk that the process of registration of the ownership would not be finished due to faulty legal procedure or disagreement of some individuals. The risk of loss of the controlled land is especially high while the land plots are not registered in Cadastre. After some cases of the land write-offs in 2008 the management decided to create a land impairment provision.

The land impairment provision is calculated by multiplication of average cost of 1 hectare of land, total square of risky land (not registered in Cadastre) and the risk coefficient (portion of actually lost land in total square).

(g) Intangible assets

Intangible assets, that are acquired by the Group, which have finite useful lives, are measured at cost less accumulated amortisation and impairment losses.

Subsequent expenditure is capitalized only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditures, including expenditures on internally generated goodwill and brands, is recognised in profit or loss as incurred.

Amortisation is recognised in profit and loss on a straight-line basis over the estimated useful lives of intangible assets from the

date the asset is available for use. The estimated useful lives for the current and comparative periods vary from 1 to 5 years.

(h) Inventories

Biological assets – Agricultural produce

Prior to harvest, biological assets related to agricultural activity and agricultural produce are measured at fair value less estimated point-of-sale costs, with any changes in fair value recognised in profit or loss. Point-of-sale costs include all costs that would be necessary to sell the assets. Fair value is determined as the quoted price for the grain production on the Russian agricultural market. When little biological transformation has taken place since initial cost incurrence, biological assets are valued on the basis of actual incurred costs.

At point of harvest, that is determined for each crop to be the last date of gathering the crop, the fair value measurement of agricultural produce is deemed to be the initial cost of the harvest for subsequent accounting. Subsequent to harvest, agricultural produce is measured at net realizable value according to IAS 2, Inventories paragraph 4.

The Group uses local market prices published by independent experts to determine net realisable value of agricultural produce at the end of the reporting period. Changes in net realisable value are recognised in the consolidated statement of comprehensive income in the period in which they arise. Harvested produce is measured at net realizable value on a quarterly basis. When agriculture produce is sold, the carrying amount of the inventory (i.e., the net realizable value at the beginning of the reporting period) is recognised as cost of goods sold. The difference between revenue from the sale and costs of goods sold reflects changes in prices for the produce which were sold during period, while the "Change in net realisable value" line in the statement of comprehensive income shows the change in produce prices included at the end of the period.

Biological assets – Livestock

Biological assets related to livestock are measured at fair value less estimated point-of-sale costs, with any changes in fair value recognised in profit or loss. Point-of-sale costs include all costs that would be necessary to sell the assets. Fair value is determined using local market prices.

Other inventories

Inventories are measured at the lower of cost and net realizable value.

The cost of inventories is based on the weighted average principle and includes expenditure incurred in acquiring the inventories, production or conversion costs and other costs included in bringing them to their existing location and condition. In the case of manufactured inventories and work in progress, cost includes an appropriate share of production overheads based on normal operating capacity.

Net realizable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses.

(i) Impairment

Financial assets

A financial asset is assessed at each reporting date to determine whether there is any objective evidence that it is impaired. A financial asset is considered to be impaired if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows of that asset.

An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount, and the present value of the estimated future cash flows discounted at the original effective interest rate.

Individually significant financial assets are tested for impairment on an individual basis. The remaining financial assets are assessed collectively in groups that share similar credit risk characteristics.

All impairment losses are recognised in the income statement. An impairment loss is reversed if the reversal can be related objec-

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tively to an event occurring after the impairment loss was recognised. For financial assets measured at amortised cost and available-for-sale financial assets that are debt securities, the reversal is recognised in the income statement.

Tangible and intangible assets

The carrying amounts of the Group's non-financial assets, other than inventories and deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. Intangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment at least annually, and whenever there is an indication that the asset may be impaired.

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For the purpose of impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (the "cash-generating unit"). The goodwill acquired in a business combination acquisition, for the purposes of impairment testing, is allocated to cash-generating units that are expected to benefit from the synergies of the combination.

An impairment loss is recognised if the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. Impairment losses are recognised in the income statement. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the units and then to reduce the carrying amount of the other assets in the unit (group of units) on a pro rata basis.

Impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

(j) Defined contribution pension plans

Obligations to defined contribution pension plans, including Russia's State pension fund, are recognised in profit and loss when they are due.

(k) Share-based payment arrangements

Equity-settled share-based payments to employees and others providing similar services are measured at the fair value of the equity instruments at the grant date.

The warrants program allows the Group's employees to acquire shares of the Company. The warrants expenses are measured at the fair value of the equity instruments at the grant date.

The fair value determined at the grant date of the equity-settled share-based payments is expensed (as employee expense) on a straight-line basis over the vesting period, based on the Group's estimate of equity instruments that will eventually vest, with a corresponding increase in equity. At the end of the reporting period, the Group revises its estimate of the number of equity instruments expected to vest. The impact of the revision of the original estimates, if any, is recognised in profit or loss such that the cumulative expense reflects the revised estimate, with a corresponding adjustment to the equity-settled employee benefits reserve.

Equity-settled share-based payment transactions with parties other than employees are measured at the fair value of the goods or services received, except where that fair value cannot be estimated reliably, in which case they are measured at the fair value of the equity instruments granted, measured at the date the entity obtains the goods or the counterparty renders the service.

(l) Provisions

A provision is recognised if, as a result of a past event, the Group has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability.

(m) Income tax

Income tax for the year comprises current and deferred tax. Income tax is recognised in the statement of income except to the extent that it relates to items recognized in other comprehensive income or directly to equity, in which case it is recognized in other comprehensive income or in equity.

Current tax expense is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax is recognised using the balance sheet method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognised for the following temporary differences: the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting or taxable profit, and differences relating to investments in subsidiaries to the extent that it is probable that they will not reverse in the foreseeable future. In addition, deferred tax is not recognised for taxable temporary differences arising on the initial recognition of goodwill. Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date. Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax assets and liabilities, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realized simultaneously.

A deferred tax asset is recognised to the extent that it is probable that future taxable profits will be available against which the temporary difference can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

(n) Revenue recognition

Revenue from the sale of goods is measured at the fair value of the consideration received or receivable, net of returns and allowances, trade discounts and volume rebates. Revenue is recognised when the significant risks and rewards of ownership have been transferred to the buyer, recovery of the consideration is probable, the associated costs and possible return of goods can be estimated reliably, and there is no continuing involvement with the goods.

Interest income from a financial asset is recognised when it is probable that the economic benefits will flow to the Group and the amount of income can be measured reliably. Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

(o) Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

All other borrowing costs are recognised in profit and loss in the period in which they are incurred.

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(p) Government grants

An unconditional government grant relating to a biological asset is recognised in profit and loss when the grant has been received.

(q) Leasing

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

Assets held under finance lease are initially recognised as assets of the Group at an amount equal to the lower of its fair value and the present value of the minimum lease payments. The corresponding liability to the lessor is included in the consolidated statement of financial position as a finance lease obligation.

Finance lease payments are apportioned between finance expenses and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of liability. Finance expenses are recognised immediately in profit and loss.

Operating lease payments are recognised in profit and loss on a straight-line basis over the term of the lease. Lease incentives received are recognised as an integral part of the total lease expense, over the term of the lease.

(r) Earnings per share

The Group presents basic and diluted earnings per share ("EPS") data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Company by the weighted average number of ordinary shares outstanding during the period. Diluted EPS is determined by adjusting the profit or loss attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding for the effects of all dilutive potential ordinary shares, which comprise warrants granted to employees.

(s) Standards and Interpretations effective in the current period

The following new and revised Standards and Interpretations are effective for 2011. Their adoption has not had any significant impact on the amounts reported in these financial statements but may affect the accounting for future transactions or arrangements.

- Amendments to IAS 1 Presentation of Financial Statements
- Amendments to IAS 24 Related Party Disclosures
- Amendments to IAS 32 Financial Instruments: Presentation
- Amendments to IFRS 3 Business Combinations
- Amendment to IFRIC 14 The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction
- IFRIC 19 Extinguishing Financial Liabilities with Equity Instruments
- Improvements to IFRSs issued in 2010

(t) New Standards and Interpretations not yet adopted

International Accounting Standards Board (IASB) has issued the following new and amended standards which are not yet effective:

Standards	Will be applied for financial years beginning:
Amendments to IFRS 1 First-time Adoption of IFRS (<i>Severe hyperinflation and removal of fixed dates for first-time adopters</i>)	1 July 2011 or later
Amendments to IFRS 7 Financial Instruments (<i>Additional disclosures – transfers of financial assets</i>)	1 July 2011 or later
Amendments to IAS 12 Income Taxes (<i>Deferred tax: Recovery of underlying assets</i>)	1 January 2012 or later
Amendments to IAS 1 (<i>Presentation of Items of Other Comprehensive Income</i>)	1 July 2012 or later
IFRS 10 Consolidated Financial Statements	1 January 2013 or later
IFRS 11 Joint Arrangements	1 January 2013 or later
IFRS 12 Disclosure of Interest in Other Entities	1 January 2013 or later
Amendments to IAS 27 Separate Financial Statements	1 January 2013 or later
Amendments to IAS 28 Investments in Associates and Joint Ventures	1 January 2013 or later
IFRS 13 Fair Value Measurement	1 January 2013 or later
Amendments to IAS 19 Employee Benefits	1 January 2013 or later
Amendments to IFRS 7 Financial instruments (<i>Disclosures – Offsetting Financial Assets and Financial Liabilities</i>)	1 January 2013 or later
Amendments to IAS 32 (<i>Offsetting Financial Assets and Financial Liabilities</i>)	1 January 2014 or later
IFRS 9 Financial Instruments (New standard)	1 January 2015 or later

The above new and amended standards have not yet been applied. The Group expects no significant impact from the adoption of the amendments to its financial position or performance.

4 Critical accounting judgments and key sources of estimation uncertainty

Management has made a number of judgments, estimates and assumptions relating to the reporting of assets and liabilities and the disclosure of contingent assets and liabilities to prepare these consolidated financial statements in conformity with IFRSs. Actual results may differ from those estimates. Additional information relating to contingencies and commitments is disclosed in note 33.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected.

(a) Biological assets

The particularity of agriculture is such that approximately 40 percent of expenditures are incurred in the fall of the preceding year for any given harvest, and the remaining approximately 60 percent incurred during spring and summer in the same year as the harvest.

The next year's crop which has been seeded in the current year has undergone little biological transformation. The fair value of such biological assets is equal to actual incurred costs. The carrying value of the next year's crop as at 31 December 2011 amounted to RUR 522,831 thousand (USD* 16,239 thousand).

(b) Income tax

The Group is subject to income taxes in different jurisdictions. Significant judgment is required in determining the provision for income taxes due to the complexity of the legislation. There are

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many transactions and calculations for which the ultimate tax determination is uncertain. The Group recognizes liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provision in the period in which such determination is made.

Management judgmentally ceased to recognise deferred tax assets for all unused tax losses. The Group maintains the legal right to use such tax losses in the future, up to the date allowed by the tax law. Management determined that deferred tax assets relating to such tax losses would be reconsidered for recognition once the Group reaches profitability.

5 Change in accounting policy

The Group has assessed its accounting policy with regard to the valuation of agricultural produce. The Group previously valued biological assets at fair value less estimated point-of-sale costs at the point of harvest. Subsequent to harvest, agricultural produce was measured at the lower of cost and net realizable value in accordance with IAS 2 Inventories. As a consequence, the Group's consolidated statement of financial position did not reflect the current market value of its agriculture produce inventory, but fixed the measurement of agricultural produce at its minimal level – at market prices at the point of harvest.

6 Prior year changes

(a) Restatement

The impact of the change in accounting policy (note 5) was applied retrospectively in accordance with IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors, resulting in the restatement of prior year consolidated financial statements.

There is no impact of the change in accounting policy on 2009 results, as inventory was originally recorded at net realisable value that was lower than cost at 31 December 2009. Therefore the statement of financial position for 2009 is not presented in this consolidated financial statements.

As a result of the accounting policy change, the following adjustments were made to the 2010 consolidated financial statements:

In thousands of RUR, except per share data	As originally reported	After restatement	Difference
<i>Condensed Consolidated Statement of Financial Position as at 31 December 2010</i>			
Inventories	1,141,799	1,265,484	123,685
Accumulated deficit	(3,979,498)	(3,855,813)	123,685
<i>Condensed Consolidated Statement of Comprehensive Income for the year ended 31 December 2010</i>			
Gain/(loss) on revaluation of biological assets	166,308	379,145	212,837
Change in net realisable value of agricultural produce	–	118,835	118,835
Cost of sales	(1,470,397)	(1,678,384)	(207,987)
Net loss for the year	(1,294,247)	(1,170,562)	123,685
Loss per share, basic and diluted	(10.39)	(9.39)	1.00
In thousands of USD*, except per share data	As originally reported	After restatement	Difference
<i>Condensed Consolidated Statement of Financial Position as at 31 December 2010</i>			
Inventories	35,464	39,306	3,842
Accumulated deficit	(123,602)	(119,760)	3,842
<i>Condensed Consolidated Statement of Comprehensive Income for the year ended 31 December 2010</i>			
Gain/(loss) on revaluation of biological assets	5,165	11,776	6,611
Change in net realisable value of agricultural produce	–	3,691	3,691
Cost of sales	(45,670)	(52,130)	(6,460)
Net loss for the year	(40,199)	(36,357)	3,842
Loss per share, basic and diluted	(0.33)	(0.29)	0.03

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(b) Reclassifications

The Group conducted a detailed analysis of its expenditures with a view to improve classification of such expenditures between cost of sales and distribution expenses, taking into account that costs incurred to operate the new elevators produce storage capacity mainly for internal needs. As a result of such analysis, it was con-

cluded that a portion of costs incurred to operate the elevators relating to intergroup revenue should be presented as distribution costs. Therefore certain comparative information, presented in the condensed consolidated financial statements for the year ended 31 December 2010, has been reclassified in order to achieve comparability with the current period presentation.

The details of the reclassifications made are as follows:

In thousands of RUR	Before reclassification	Recast	Difference
<i>Condensed Consolidated Statement of Comprehensive Income for the year ended 31 December 2010</i>			
Cost of sales	(1,678,384)	(1,644,052)	34,332
Distribution expenses	(107,825)	(142,157)	(34,332)

In thousands of USD*	Before reclassification	Recast	Difference
<i>Condensed Consolidated Statement of Comprehensive Income for the year ended 31 December 2010</i>			
Cost of sales	(52,130)	(51,063)	1,067
Distribution expenses	(3,348)	(4,415)	(1,067)

7 Segment information

The operating segments definitions were developed by senior management in order to enable effective and efficient operating performance based on the geographic and sub-climactic split of the cropped areas in the four Black Earth regions: Voronezh, Kursk, Lipetsk and Tambov. The Group also has one operating entity in Samara region, however, for segment reporting purposes it was included in Tambov, as the entity's result is not material as a single operating segment.

The Group also recognises a separate segment related to elevator's activity. The Elevator segment consists of two legal entities: Agrotterminal (with working elevator containing 60 tons of capacity) and Nedvizhimost' (with three new elevators containing 115 tons of capacity started working in the end of 2010). The elevators mainly work for internal needs, however it provides services for third parties if there are spare capabilities.

The management company is located in Moscow. The management company does not produce anything itself and its revenue is a result of selling crops harvested by Group's companies. It sets the general policies for all entities, collects the data and controls implementation of all decisions received therefore it bears the majority of general and administrative expenses.

The parent company Black Earth Farming Ltd. is not included in any of the operating segments, as it does not generate revenue, therefore its assets and expenses have been reflected in the corporate segment of the assets and expenses.

The segments are based on the internal reporting to the chief operating decision makers – senior management headed by the CEO, CFO and COO of Black Earth Farming Limited.

(a) Segment revenues and results

In thousands of	RUR Revenue from external sales 12 m. 2011	RUR Inter-segment revenue 12 m. 2011	RUR Depreciation and amortisation 12 m. 2011	RUR Net result 12 m. 2011
Agricultural companies				
– Voronezh region	421,143	76,192	94,950	28,985
– Kursk region	516,822	26,166	81,543	(86,196)
– Lipetsk region	676,716	49,910	81,295	(119,543)
– Tambov region	320,994	10,077	79,328	(171,869)
Elevators	74,003	279,407	77,274	(10,039)
Management company (Moscow)	57,375	47,663	11,011	(260,411)
Total	2,067,053	489,415	425,401	(619,074)
Central administration costs and director salaries				(188,380)
Other income and expenses				(5,442)
Finance expenses, net				(489,800)
Loss before tax				(1,302,696)

In thousands of	RUR Revenue from external sales 12 m. 2010	RUR Inter-segment revenue 12 m. 2010	RUR Depreciation and amortisation 12 m. 2010	RUR Net result 12 m. 2010
Agricultural companies				
– Voronezh region	343,591	98,308	105,414	(127,410)
– Kursk region	233,997	298,291	75,399	(2,080)
– Lipetsk region	302,639	193,630	85,078	(250,781)
– Tambov region	205,906	140,564	65,949	(33,534)
Elevators	9,174	46,634	14,989	31,219
Management company (Moscow)	334,731	91,369	15,135	(281,225)
Total	1,430,038	868,796	361,964	(663,811)
Central administration costs and director salaries				(166,788)
Other income and expenses				3,334
Finance expenses, net				(404,547)
Loss before tax				(1,231,812)

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In thousands of	USD* Revenue from external sales 12 m. 2011	USD* Inter-segment revenue 12 m. 2011	USD* Depreciation and amortisation 12 m. 2011	USD* Net result 12 m. 2011
Agricultural companies				
– Voronezh region	13,080	2,366	2,949	899
– Kursk region	16,052	813	2,533	(2,677)
– Lipetsk region	21,019	1,550	2,525	(3,713)
– Tambov region	9,970	313	2,464	(5,338)
Elevators	2,299	8,678	2,400	(312)
Management company (Moscow)	1,782	1,480	342	(8,088)
Total	64,202	15,200	13,213	(19,229)
Central administration costs and director salaries				(5,851)
Other income and expenses				(169)
Finance expenses, net				(15,213)
Loss before tax				(40,462)

In thousands of	USD* Revenue from external sales 12 m. 2010	USD* Inter-segment revenue 12 m. 2010	USD* Depreciation and amortisation 12 m. 2010	USD* Net result 12 m. 2010
Agricultural companies				
– Voronezh region	10,671	3,053	3,275	(3,957)
– Kursk region	7,268	9,265	2,342	(65)
– Lipetsk region	9,400	6,014	2,642	(7,789)
– Tambov region	6,395	4,366	2,048	(1,042)
Elevators	285	1,448	466	970
Management company (Moscow)	10,397	2,838	470	(8,735)
Total	44,416	26,984	11,243	(20,618)
Central administration costs and director salaries				(5,180)
Other income and expenses				104
Finance expenses, net				(12,565)
Loss before tax				(38,259)

The accounting policies of the reportable segments are the same as the Group's accounting policies according to IFRS. Segment profit represents the profit earned by each segment without central administration costs and director salaries (Black Earth Farming Ltd.), other income and expenses and finance costs (net).

(b) Segment assets

In thousands of	RUR 31-Dec-11	RUR 31-Dec-10	USD* 31-Dec-11	USD* 31-Dec-10
Agricultural companies				
– Voronezh region	1,825,922	1,491,000	56,712	46,309
– Kursk region	2,241,161	1,776,475	69,610	55,177
– Lipetsk region	2,123,407	1,921,530	65,952	59,682
– Tambov region	1,229,073	1,200,619	38,175	37,291
Elevators	1,670,075	1,709,453	51,872	53,095
Management company (Moscow)	571,647	244,698	17,755	7,600
Total segment assets	9,661,286	8,343,776	300,076	259,154
Corporate assets	491,866	2,938,311	15,277	91,263
Consolidated total assets	10,153,152	11,282,087	315,353	350,417

Corporate assets include closing balances (mainly cash and cash equivalents) of Black Earth Farming Ltd. and the Group's deferred tax assets.

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(c) Revenues from major products

The Group's revenues from its major products were as follows:

In thousands of	RUR 12 m. 2011	RUR 12 m. 2010	USD* 12 m. 2011	USD* 12 m. 2010
Wheat	1,090,218	422,371	33,860	13,118
Sunflowers	448,518	424,865	13,931	13,196
Spring rape seed	202,086	188,506	6,277	5,855
Spring barley	171,848	256,664	5,338	7,972
Sugar-beet	67,889	–	2,109	–
Milk and meat	32,835	23,223	1,020	721
Soya	24,940	–	775	–
Corn	5,937	84,420	184	2,622
Waste grains	3,630	7,694	113	240
Winter rape seed	–	899	–	28
Other goods and services	19,152	21,396	595	664
	2,067,053	1,430,038	64,202	44,416

(d) Geographical information

The Group operates in the Russian Federation. The Group has a head office in Jersey; however the head office does not own any non-current assets and generates only financial income and expenses in addition to administration costs and directors' salaries. Therefore all non-current assets are located in Russia and all of the Group's operations are in Russia.

(e) Information about major customers

Revenue from two major customers during 2011 and 2010 was equal to RUR 413,164 thousand (USD* 12,833 thousand) and RUR 743,194 thousand (USD* 23,083 thousand) which represents approximately 20 and 54 percent of the total annual grain sales revenue, respectively. These customers have been buying various grains for their own processing plants which are located throughout the Group's grain-producing regions.

8 Revenue and gains

The following is an analysis of the Group's revenue for the year from continuing operations.

In thousands of	RUR 12 m. 2011	RUR 12 m. 2010	USD* 12 m. 2011	USD* 12 m. 2010
Revenue from sales of crop production	2,015,066	1,385,419	62,587	43,031
Revenue from sales of milk and meat	32,835	23,223	1,020	721
Revenue from sales of other goods and services	19,152	21,396	595	664
Gain on revaluation of biological assets and agricultural produce	516,066	379,145	16,029	11,776
Change in net realisable value of agricultural produce after harvest	(83,786)	118,835	(2,602)	3,691
Total revenue and gains	2,499,333	1,928,018	77,629	59,883

In thousands of	RUR 12 m. 2011	RUR 12 m. 2010	USD* 12 m. 2011	USD* 12 m. 2010
Fair value less point-of-sale costs at date of harvest	2,744,801	1,733,867	85,254	53,853
Actual production costs	(2,215,211)	(1,352,848)	(68,804)	(42,019)
Revaluation of biological assets to agricultural produce	529,590	381,019	16,450	11,834

Fair value of 2011 sunflower to be harvested less point-of-sale costs	9,767	–	303	–
Actual production costs	(24,047)	–	(747)	–
Revaluation of agricultural produce in the process of harvesting	(14,280)	–	(444)	–

Revaluation of dairy and meat livestock	756	(1,874)	23	(58)
Gain on revaluation of biological assets to agricultural produce	516,066	379,145	16,029	11,776

9 Cost of sales

In thousands of	RUR 12 m. 2011	RUR 12 m. 2010	USD* 12 m. 2011	USD* 12 m. 2010
Materials	1,114,751	761,862	34,624	23,662
Depreciation and amortisation charge	330,070	295,468	10,252	9,177
Salary and social taxes	162,013	134,076	5,032	4,164
Third party crop handling services	99,672	66,579	3,096	2,068
Loss of crops	41,761	79,897	1,297	2,482
Operating leasing	30,371	32,362	943	1,005
Taxes	28,858	14,478	896	450
Repair expenses	11,295	7,017	351	218
Other expenses	65,008	44,326	2,019	1,377
Effect of revaluations	448,414	207,987	13,928	6,460
	2,332,213	1,644,052	72,438	51,063

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10 Distribution expenses

In thousands of

	RUR 12 m. 2011	RUR 12 m. 2010	USD* 12 m. 2011	USD* 12 m. 2010
Transportation and delivery services	114,951	45,553	3,570	1,414
Depreciation and amortisation charge	66,449	27,128	2,064	843
Salaries and social taxes	30,503	10,568	947	328
Materials	16,183	12,282	503	381
Storage and other elevator services	9,989	23,975	310	745
Other services	33,410	22,651	1,038	704
	271,485	142,157	8,432	4,415

Distribution expenses increased in part due to transportation services used for export sales, but also due to expenses spent on operating internal storage capacity started working from 2011.

11 General and administrative expenses

In thousands of

	RUR 12 m. 2011	RUR 12 m. 2010	USD* 12 m. 2011	USD* 12 m. 2010
Personnel expenses	375,439	417,658	11,661	12,972
Consulting and audit	101,857	52,816	3,164	1,641
Office and administration expenses	54,260	63,263	1,685	1,965
Termination payments	32,248	26,254	1,002	815
Depreciation and amortisation	28,882	39,368	897	1,223
Travel expenses	23,890	17,409	742	541
Rent expenses	20,958	27,554	651	856
Other services	19,677	15,103	611	469
	657,211	659,425	20,413	20,482

12 Personnel costs

Personnel costs are included in general and administrative expenses, selling expenses, cost of sales and work in progress as follows:

In thousands of

	RUR 12 m. 2011	RUR 12 m. 2010	USD* 12 m. 2011	USD* 12 m. 2010
<i>General and administrative expenses</i>				
Salaries	358,772	400,350	11,143	12,435
Salary related expenses	48,915	43,562	1,519	1,353
<i>Cost of sales and work in progress</i>				
Salaries	179,672	131,507	5,581	4,085
Salary related expenses	41,827	27,349	1,299	849
<i>Distribution expenses</i>				
Salaries	22,761	8,554	707	266
Salary related expenses	7,742	2,014	240	63
	659,689	613,336	20,489	19,051

Personnel costs for 2011 and 2010 include share-based payment expense (see note 28 (d)) granted to employees of RUR 25,633 thousand (USD* 796 thousand) and RUR 32,026 thousand (USD* 995 thousand) correspondingly.

Average and total number of employees	12 m. 2011	Of whom men	12 m. 2010	Of whom men
Company (Jersey)	7	100%	7	100%
Subsidiaries (Russia)	1,822	77%	1,903	76%
Group total	1,829	77%	1,910	76%

The total number of Group employees as at 31 December 2011 was 1,816 (31 December 2010: 1,857).

Proportion of women in management

	2011 Percentage of women	2010 Percentage of women
<i>Company</i>		
Board of directors	0%	0%
Other senior executives	0%	0%
<i>Group</i>		
Board of directors	0%	0%
Other senior executives	27%	20%

Retirement benefit plans

The statutory retirement age for executive directors is 55 years for women and 60 years for men, in accordance with the Russian Labour Code. The Group does not offer a private pension plan to its employees. In accordance with Russian tax legislation, the Group pays statutory social security tax (at maximum rate 30%). This tax

is regressive and comprises social insurance, contributions to the State Pension Fund and the State Medical Fund. The total contribution paid to the State Pension Fund during 2011 and 2010 was equal to RUR 66,473 thousand (USD* 2,065 thousand) and RUR 56,211 thousand (USD* 1,746 thousand), respectively. The Company has not reserved or accrued for pension, retirement or similar benefit obligations to Directors or senior executives. No Directors or senior executives have service contracts with the Company which offers them benefits upon termination of their respective appointments.

Termination of employment

The executives are entitled to a severance pay of not much than 6 months if the Group terminates the employment. Severance pay for the executives is calculated only on the base salary and does not include any variable compensations.

* The USD equivalent figures are provided for information purposes only and do not form part of the consolidated financial statements – refer to note 2 (d).

13 Taxes other than income

In thousands of

	RUR 12 m. 2011	RUR 12 m. 2010	USD* 12 m. 2011	USD* 12 m. 2010
Property tax	51,878	39,102	1,612	1,215
Unrecoverable VAT	5,158	19,778	160	614
Land tax	1,330	7,085	41	220
Other taxes	1,159	969	36	30
	59,525	66,934	1,849	2,079

Other taxes include mainly state fees and transportation tax.

14 Impairment of goodwill and property, plant and equipment (PPE)

In thousands of

	RUR 12 m. 2011	RUR 12 m. 2010	USD* 12 m. 2011	USD* 12 m. 2010
Impairment of goodwill (note 20)	–	(234,321)	–	(7,277)
Reversal of impairment of PPE/ (impairment)	3,105	(27,133)	96	(843)
(Provision for land)/reversal of land reserve	(1,692)	5,998	(52)	186
	1,413	(255,456)	44	(7,934)

The Group is in process of land ownership registration for its remaining, unregistered land. During 2011, the Group discovered new risks related to the registration process. For this reason, the reserve for land impairment increased (note 19).

During 2010 the Group impaired some decrepit buildings acquired with land plots. In 2011 one of these buildings was considered as suitable for use, therefore the impairment was reversed.

15 Other (income) and expenses

In thousands of

	RUR 12 m. 2011	RUR 12 m. 2010	USD* 12 m. 2011	USD* 12 m. 2010
Fines and penalties received	(3,292)	(3,926)	(101)	(122)
Bad debt provision	17,264	10,822	536	336
Result on disposal of PPE	1,042	18,852	32	586
Donations	2,967	13,459	92	418
Gains and losses related to disposal of other assets	390	2,128	12	66
Write-off of land	9,832	–	305	–
Write-off crops from warehouses	16,765	10,913	521	339
Other income and expenses	10,699	7,509	332	233
	55,667	59,757	1,729	1,856

16 Financial income and expenses

In thousands of

	RUR 12 m. 2011	RUR 12 m. 2010	USD* 12 m. 2011	USD* 12 m. 2010
<i>Financial Income</i>				
Interest income on deposits	36,634	30,413	1,138	945
	36,634	30,413	1,138	945
<i>Financial Expenses</i>				
Interest expense	(507)	(526)	(16)	(16)
Bond interest	(344,696)	(286,310)	(10,707)	(8,893)
Loss from repurchase of bonds	(13,021)	(32,192)	(404)	(1,000)
Loss on foreign exchange differences	(168,210)	(115,932)	(5,225)	(3,601)
	(526,434)	(434,960)	(16,352)	(13,510)
Net financial expense	(489,800)	(404,547)	(15,214)	(12,565)

* The USD equivalent figures are provided for information purposes only and do not form part of the consolidated financial statements – refer to note 2 (d).

17 Income tax

Black Earth Farming Limited (the holding Company in Jersey) and Planalto Enterprises Limited (a subsidiary in Cyprus) are subject to the following tax rates: Jersey 0% and Cyprus 10%, respectively.

Companies domiciled in Russia that do not have the status of an agricultural producer are subject to a 20% corporate income tax.

Companies domiciled in Russia that do have the status of an agricultural producer are exempt from corporate income tax on profits realized from the sale of agricultural produce.

During 2011, the majority of local operating companies were granted the status of agricultural producers thereby enabling them to be exempt from corporate income tax.

In thousands of	RUR 12 m. 2011	RUR 12 m. 2010	USD* 12 m. 2011	USD* 12 m. 2010
Current tax expense/(benefit)	291	(1,444)	9	(45)
Deferred tax expense/(benefit)	39,121	(59,806)	1,215	(1,857)
Income tax expense/(benefit)	39,412	(61,250)	1,224	(1,902)

The income tax reconciliation is presented below:

In thousands of	RUR 12 m. 2011	RUR 12 m. 2010	USD* 12 m. 2011	USD* 12 m. 2010
Loss before income tax	(1,302,703)	(1,231,812)	(40,462)	(38,259)
Income tax at applicable tax rate	(260,541)	(246,362)	(8,092)	(7,652)
Loss taxed at lower tax rates	156,386	194,703	4,856	6,047
Effect of non-deductible expenses and other permanent differences	1,048	(9,694)	33	(300)
Use of loss carry forward	—	844	—	26
Change in unrecognised deferred tax assets	142,519	(741)	4,427	(23)
	39,412	(61,250)	1,224	(1,902)

18 Deferred tax assets and liabilities

(a) Recognised deferred tax assets and liabilities

Deferred tax assets and liabilities are attributable to the following:

In thousands of RUR	Assets		Liabilities		Net	
	31-Dec-2011	31-Dec-2010	31-Dec-2011	31-Dec-2010	31-Dec-2011	31-Dec-2010
Property, plant and equipment	37,795	14,403	(39,954)	(19,173)	(2,159)	(4,770)
Inventory	51,480	9,512	(481)	(445)	50,999	9,067
Trade and other receivables	12,748	11,031	(1,718)	—	11,030	11,031
Trade and other payables	9,743	7,509	—	—	9,743	7,509
Loss carry forwards	—	85,897	—	—	—	85,897
Net tax assets/(liabilities)	111,766	128,352	(42,153)	(19,618)	69,613	108,734

In thousands of USD*	Assets		Liabilities		Net	
	31-Dec-2011	31-Dec-2010	31-Dec-2011	31-Dec-2010	31-Dec-2011	31-Dec-2010
Property, plant and equipment	1,174	447	(1,241)	(596)	(67)	(150)
Inventory	1,598	296	(15)	(13)	1,583	283
Trade and other receivables	396	343	(53)	—	343	343
Trade and other payables	303	233	—	—	303	233
Loss carried forward	—	2,668	—	—	—	2,668
Net tax assets/(liabilities)	3,471	3,987	(1,309)	(609)	2,162	3,377

Due to operating losses incurred during previous years, the Group recognised deferred tax assets related to tax losses that are allowed to be carried forward to offset future operating profits. At the end of 2010 these deferred tax assets amounted to RUR 85,897 thousand (USD* 2,668 thousand).

Management judgmentally determined to derecognise the full amount of RUR 85,897 thousand (USD* 2,668 thousand) during the current year. The Group maintains the legal right to use such tax losses in the future, up to the date allowed by the tax law during next 7–9 years. Management determined that deferred tax assets relating to such tax losses would be reconsidered for recognition once the Group reaches profitability.

(b) Unrecognised deferred tax assets

In thousands of	RUR 31-Dec-2011	RUR 31-Dec-2010	USD* 31-Dec-2011	USD* 31-Dec-2010
Deductible temporary differences	28	—	1	—
Tax loss carry forwards	142,491	—	4,426	—
	142,519	—	4,427	—

* The USD equivalent figures are provided for information purposes only and do not form part of the consolidated financial statements – refer to note 2 (d).

19 Property, plant and equipment

In thousands of

	RUR Land	RUR Buildings	RUR Machinery and equipment	RUR Vehicles	RUR Fixtures and fittings	RUR Construction in progress	RUR Total
<i>Cost</i>							
As at 1 January 2010	1,804,113	1,000,345	2,634,046	361,540	29,795	560,123	6,389,962
Additions	70,468	715,885	12,969	6,203	5,810	11,398	822,733
Disposals	(11,270)	(4,958)	(33,656)	(7,001)	(3,564)	–	(60,449)
Reclassification of fixed assets	263	514,047	9,542	1,133	1,102	(526,087)	–
As at 31 December 2010	1,863,574	2,225,319	2,622,901	361,875	33,143	45,434	7,152,246
Additions	46,310	333,333	283,581	1,143	6,078	109,048	779,493
Disposals	(29,122)	(1,150)	(89,038)	(4,458)	(2,781)	(3,998)	(130,547)
Reclassification of fixed assets	–	6,805	7,764	–	515	(15,084)	–
As at 31 December 2011	1,880,762	2,564,307	2,825,208	358,560	36,955	135,400	7,801,192
<i>Accumulated depreciation and impairment</i>							
As at 1 January 2010	(9,627)	(99,366)	(606,766)	(124,877)	(18,436)	–	(859,072)
Depreciation charge	–	(67,889)	(237,794)	(53,218)	(7,117)	–	(366,018)
Adjustment to depreciation of disposed fixed assets	–	372	11,570	2,789	1,503	–	16,234
Impairment of PPE	–	(23,150)	(1,035)	(13)	–	(2,935)	(27,133)
Reversal of land reserve	5,998	–	–	–	–	–	5,998
As at 31 December 2010	(3,629)	(190,033)	(834,025)	(175,319)	(24,050)	(2,935)	(1,229,991)
Depreciation charge	–	(148,063)	(396,031)	(46,626)	(5,234)	–	(595,954)
Adjustment to depreciation of disposed fixed assets	–	272	38,386	1,871	2,359	–	42,888
Reversal of impairment of PPE	–	2,453	652	–	–	–	3,105
Impairment of land	(1,692)	–	–	–	–	–	(1,692)
As at 31 December 2011	(5,321)	(335,371)	(1,191,018)	(220,074)	(26,925)	(2,935)	(1,781,644)
<i>Net book value</i>							
As at 1 January 2010	1,794,486	900,979	2,027,280	236,663	11,359	560,123	5,530,890
As at 31 December 2010	1,859,945	2,035,286	1,788,876	186,556	9,093	42,499	5,922,255
As at 31 December 2011	1,875,441	2,228,936	1,634,190	138,486	10,030	132,465	6,019,548

In thousands of	USD*	USD*	USD*	USD*	USD*	USD*	USD*
	Land	Buildings	Machinery and equipment	Vehicles	Fixtures and fittings	Construction in progress	Total
<i>Cost</i>							
As at 1 January 2010	56,035	31,070	81,813	11,229	925	17,397	198,469
Additions	2,189	22,235	403	193	180	354	25,554
Disposals	(350)	(154)	(1,045)	(217)	(111)	–	(1,877)
Reclassification of fixed assets	8	15,966	296	35	35	(16,340)	–
As at 31 December 2010	57,882	69,117	81,467	11,240	1,029	1,411	222,146
Additions	1,438	10,354	8,808	35	189	3,387	24,211
Disposals	(904)	(36)	(2,765)	(138)	(86)	(125)	(4,054)
Reclassification of fixed assets	–	211	241	–	16	(468)	–
As at 31 December 2011	58,416	79,646	87,751	11,137	1,148	4,205	242,303
<i>Accumulated depreciation and impairment</i>							
As at 1 January 2010	(299)	(3,086)	(18,846)	(3,879)	(573)	–	(26,683)
Depreciation charge	–	(2,109)	(7,386)	(1,653)	(221)	–	(11,369)
Adjustment to depreciation of disposed fixed assets	–	12	359	87	47	–	505
Impairment of PPE	–	(719)	(33)	–	–	(91)	(843)
Reversal of land reserve	186	–	–	–	–	–	186
As at 31 December 2010	(113)	(5,902)	(25,906)	(5,445)	(747)	(91)	(38,204)
Depreciation charge	–	(4,598)	(12,301)	(1,449)	(162)	–	(18,510)
Adjustment to depreciation of disposed fixed assets	–	8	1,193	58	73	–	1,332
Reversal of impairment of PPE	–	76	20	–	–	–	96
Impairment of land	(52)	–	–	–	–	–	(52)
As at 31 December 2011	(165)	(10,416)	(36,994)	(6,836)	(836)	(91)	(55,338)
<i>Net book value</i>							
As at 1 January 2010	55,736	27,984	62,967	7,350	352	17,397	171,786
As at 31 December 2010	57,769	63,215	55,562	5,795	282	1,320	183,943
As at 31 December 2011	58,251	69,230	50,757	4,301	312	4,114	186,965

* The USD equivalent figures are provided for information purposes only and do not form part of the consolidated financial statements – refer to note 2 (d).

Land

At 31 December 2011, the Group has effective control over 318 thousand hectares of land. Approximately 14 thousand hectares were in the process of registration with the relevant authorities. Until the Group completes the registration process, it will not be able to fully exercise its rights of ownership.

At 31 December 2011 the Group leased 44 thousand hectares under long-term cancellable lease contracts. The Group had 260 thousand hectares in fully registered ownership.

Thousand hectares of land	31-Dec-11	31-Dec-10
Land in the process of ownership registration with the relevant authorities	14	34
Land in registered ownership	260	250
Land under long-term lease agreements	44	44
	318	328

Land impairment and reversal of impairment

During 2008, due to certain perceived risks at that time, the Group created a land impairment provision for land in the process of registration. The amount of impairment was RUR 26,927 thousand (USD* 884 thousand). As at 31 December 2010 the Group successfully registered the majority of its land under control. Therefore in 2009 and 2010 the reserve for land was reversed, with RUR 3,629 thousand (USD* 119 thousand) and RUR 9,627 thousand (USD* 299 thousand) remaining as of 31 December 2010 and 2009, respectively.

During 2011, the Group lost control of more than three thousand hectares of land in the Tambov region due to the expiration of power of attorney rights received from individual landowners. The Group is unable to register that land plot, therefore costs were written-off amounting to RUR 9,832 thousand (USD* 305 thousand). The loss influenced the risk ratio used in the impairment testing model (note 3 (f)) that resulted in increase in the land impairment provision up to RUR 5,321 thousand (USD* 165 thousand).

Provision for land impairment has been included in the "Impairment of goodwill and PPE" line item in the Statement of comprehensive income (note 14).

PPE impairment

During the period of active land acquisition, the Group purchased several buildings located at acquired land. While some of those buildings are appropriate for business activities, some are decrepit and could not be used for operating activities. As at 31 December 2010, the Group impaired decrepit buildings in the amount of RUR 27,133 thousand (USD* 843 thousand). In 2011 one of these buildings was considered as suitable for use, therefore the impairment was reversed.

The reverse of impairment of PPE has been included in the "Impairment of goodwill and PPE" line item in the Statement of comprehensive income (note 14).

20 Goodwill

In thousands of

	RUR 2011	RUR 2010	USD* 2011	USD* 2010
<i>Cost</i>				
Balance at beginning of year	234,321	234,321	7,277	7,277
Balance at end of year	234,321	234,321	7,277	7,277
<i>Accumulated impairment losses</i>				
Balance at beginning of year	(234,321)	—	(7,277)	—
Impairment losses recognised in the year	—	(234,321)	—	(7,277)
Balance at end of year	(234,321)	(234,321)	(7,277)	(7,277)
<i>Net book value</i>				
At beginning of year	—	234,321	—	7,277
Balance at end of year	—	—	—	—

Goodwill was recognised as a result of the AgroLipetzk acquisition in 2008. The acquired companies comprise a contiguous modern agro-industrial enterprise located in the Lipetsk region. The consideration paid for this combination reflects management's prior experience by creating viable agro-industrial clusters thru synergies and economies of scale.

Goodwill was fully written off in 2009–2010, amounting to RUR 234,321 thousand (USD* 7,277 thousand). The impairment loss has been included in the "Impairment of goodwill and PPE" line item in the Statement of comprehensive income (note 14).

21 Other intangible assets

In thousands of

	RUR 2011	RUR 2010	USD* 2011	USD* 2010
<i>Cost</i>				
Balance at beginning of year	18,756	20,970	583	651
Additions	4,367	5,231	136	162
Disposals	(2,732)	(7,445)	(85)	(231)
Balance at end of year	20,391	18,756	634	582
<i>Accumulated amortisation and impairment</i>				
Balance at beginning of year	(8,420)	(7,561)	(262)	(235)
Amortisation expense	(7,853)	(8,304)	(244)	(257)
Disposals	2,727	7,445	85	231
Balance at end of year	(13,546)	(8,420)	(421)	(261)
<i>Net book value</i>				
At beginning of year	10,336	13,409	321	416
Balance at end of year	6,845	10,336	213	321

Intangible assets mainly comprise computer software and construction licenses. The estimated useful lives used in the calculation of amortisation vary from one to three years.

* The USD equivalent figures are provided for information purposes only and do not form part of the consolidated financial statements – refer to note 2 (d).

22 Financial assets

In thousands of

	RUR 31-Dec-2011	RUR 31-Dec-2010	USD* 31-Dec-2011	USD* 31-Dec-2010
Employee loans	–	1,099	–	34
Other loans	–	332	–	10
	–	1,431	–	44

23 Biological assets

In thousands of RUR

	Crop production (current)	Livestock (non-current)	Total
Balance at 1 January 2010	425,884	20,289	446,173
Increase due to expenses incurred	1,336,933	4,217	1,341,150
Decrease due to sales	–	(3,342)	(3,342)
Net increase due to births (deaths)	–	450	450
Change in fair value less estimated point-of-sale costs	381,019	(1,874)	379,145
Harvested crops transferred to inventories	(1,733,867)	–	(1,733,867)
Balance at 31 December 2010	409,969	19,740	429,709
Balance at 1 January 2011	409,969	19,740	429,709
Increase due to acquisitions	–	74	74
Increase due to expenses incurred	2,352,120	6,917	2,359,037
Decrease due to sales	–	(4,662)	(4,662)
Net increase due to births (deaths)	–	689	689
Change in fair value less estimated point-of-sale costs	515,310	756	516,066
Harvested crops transferred to inventories	(2,744,801)	–	(2,744,801)
Balance at 31 December 2011	532,598	23,514	556,112

In thousands of USD*

	Crop production (current)	Livestock (non-current)	Total
Balance at 1 January 2010	13,228	630	13,858
Increase due to expenses incurred	41,524	131	41,655
Decrease due to sales	–	(104)	(104)
Net increase due to births (deaths)	–	14	14
Change in fair value less estimated point-of-sale costs	11,834	(58)	11,776
Harvested crops transferred to inventories	(53,853)	–	(53,853)
Balance at 31 December 2010	12,733	613	13,346
Balance at 1 January 2011	12,733	613	13,346
Increase due to acquisitions	–	2	2
Increase due to expenses incurred	73,056	216	73,272
Decrease due to sales	–	(145)	(145)
Net increase due to births (deaths)	–	21	21
Change in fair value less estimated point-of-sale costs	16,006	23	16,029
Harvested crops transferred to inventories	(85,253)	–	(85,253)
Balance at 31 December 2011	16,542	730	17,272

Current biological assets comprise mainly the planned crop of 2012 amounted to RUR 522,831 thousand (USD* 16,239 thousand) and a relatively small part of 2011 sunflower still unharvested. The sunflower is recorded at estimated fair value of RUR 9,767 thousand (USD* 303 thousand).

The 2012 crop has been seeded during September–November 2011 and therefore, is currently undergoing its planned biological transformation which takes its due course until spring/summer of 2012; therefore, this 'planned harvest' is currently valued on the basis of actual incurred costs due to the fact that little biological transformation has taken place.

24 Other non-current assets

In thousands of

	RUR 31-Dec-2011	RUR 31-Dec-2010	USD* 31-Dec-2011	USD* 31-Dec-2010
Prepayments for property, plant and equipment	62,913	87,244	1,954	2,709
Prepayments for long-term lease	59,798	57,147	1,857	1,775
Allowance for doubtful debts	(39,920)	(27,172)	(1,240)	(844)
Other non-current assets	5,855	7,875	182	245
	88,646	125,094	2,753	3,885

* The USD equivalent figures are provided for information purposes only and do not form part of the consolidated financial statements – refer to note 2 (d).

25 Inventories

In thousands of

	RUR 31-Dec-2011	RUR 31-Dec-2010	USD* 31-Dec-2011	USD* 31-Dec-2010
Finished goods	1,230,856	887,162	38,230	27,555
Raw materials and consumables	679,853	378,322	21,116	11,751
	1,910,709	1,265,484	59,346	39,306

According to IAS 41, harvested crop is transferred to inventory at fair value less cost to sell at the date of harvest. Thereafter, finished goods are stated at net realisable value according to the amended accounting policy (note 5).

26 Trade and other receivables

In thousands of

	RUR 31-Dec-2011	RUR 31-Dec-2010	USD* 31-Dec-2011	USD* 31-Dec-2010
Advances paid for goods and services	188,028	206,764	5,841	6,422
VAT receivables	187,654	179,898	5,828	5,588
Trade receivables	91,222	8,090	2,833	251
Income tax receivable	4,388	4,439	136	138
Other prepayments and receivables	21,043	28,863	654	896
Allowance for doubtful debts	(18,261)	(11,445)	(567)	(355)
	474,074	416,609	14,725	12,940

The average credit period on sales of goods is 7 days. No interest is charged on trade receivables.

Before accepting a new customer, the Group uses an external

credit scoring system to assess the potential customer's credit quality and defines credit limits by customer. Limits and scoring attributed to customers are reviewed on a case-by-case basis.

The ageing analysis of trade and other receivables is presented in the table below:

In thousands of RUR

	12 m. 2011		12 m. 2010	
	Gross amount	Allowance	Gross amount	Allowance
Current	470,085	–	413,127	–
Past due	22,250	(18,261)	14,927	(11,445)
less than six months	1,629	(1,515)	5,434	(3,017)
over six months	20,621	(16,746)	9,493	(8,428)
	492,335	(18,261)	428,054	(11,445)

In thousands of USD*

	12 m. 2011		12 m. 2010	
	Gross amount	Allowance	Gross amount	Allowance
Current	14,601	–	12,832	–
Past due	691	(567)	464	(355)
less than six months	51	(47)	169	(93)
over six months	640	(520)	295	(262)
	15,292	(567)	13,296	(355)

During 2011, the Group created a bad debt provision amounting to RUR 18,261 thousand (USD* 567 thousand). Trade receivables over 90 days are provided for based on an estimation of unrecoverable amounts from the sale of goods, as determined by reference to past default experience.

The total amount of taxes receivables is recognised as 'current' regardless of the accepted term of 90 days as the Group has positive experience in obtaining tax receivables. In addition according to Russian tax legislation it usually takes more than 90 days to receive VAT refund.

Movement in the allowance for doubtful debts

In thousands of

	RUR 2011	RUR 2010	USD* 2011	USD* 2010
Balance at beginning of the year	11,445	10,290	355	320
Impairment losses recognised on receivables	7,750	5,473	241	170
Amounts written off during the year as uncollectible	(389)	(704)	(12)	(23)
Amounts recovered during the year	(545)	(3,614)	(17)	(112)
Balance at end of the year	18,261	11,445	567	355

* The USD equivalent figures are provided for information purposes only and do not form part of the consolidated financial statements – refer to note 2 (d).

27 Cash and cash equivalents

In thousands of

	RUR 31-Dec-2011	RUR 31-Dec-2010	USD* 31-Dec-2011	USD* 31-Dec-2010
Call deposits, overnight RUR denominated at 2–4% per annum (2010: 2.7–3%)	532,000	163,400	16,524	5,075
Call deposits, SEK denominated at 2.0–2.6% per annum (2010: 1.1–1.6%)	256,367	1,319,750	7,963	40,991
Bank balances, EURO denominated accounts	86,958	4,313	2,701	134
Call deposits, EURO denominated at 0.9% per annum (2010: 0.9–2%)	33,601	714,606	1,044	22,195
Bank balances, RUR denominated accounts	31,698	32,925	985	1,023
Bank balances, SEK denominated accounts	30,005	1,460	931	45
Bank balances, USD denominated accounts	11,975	14,141	372	439
Call deposits, USD denominated at approximately 0.2% per annum (2010: 0.1–0.7%)	2,446	427,200	76	13,269
Bank balances, POUND denominated accounts	163	69	5	2
Short-term investment in Goldman Sachs Institutional funds	–	304,769	–	9,466
Petty cash	239	184	7	6
	985,452	2,982,817	30,608	92,645

28 Equity

(a) Share capital and share premium

The Group has only one class of share – ordinary shares. Each share is entitled to one vote at the general meeting and carries an equal right to the Group's assets and profits. The shares are denominated in USD and have a nominal value of USD 0.01 per share. According to the Articles of Association, the Group's authorised share capital is USD 2,000 thousand comprising 200,000,000 shares.

On 22 December 2007, the Company's shares were listed in the form of Swedish Depository Receipts on the First North market place in Stockholm. On 22 June 2009, trading in Black Earth Farming's SDRs was transferred from NASDAQ OMX First North to the Mid Cap segment on NASDAQ OMX Stockholm. The Group had 124,601,667 shares outstanding as at 31 December 2011. During the year there were no share issues.

There is no unpaid shares and the total amount of share capital amounted to RUR 32,921 thousand (USD* 1,023 thousand) as at 31 December 2011.

(b) Share premium

The total share premium amounted to RUR 11,275,731 thousand (USD* 350,220 thousand) as at 31 December 2011.

(c) Dividends

In accordance with Jersey legislation, the Company's (i.e., Black Earth Farming Limited) distributable reserves are limited to the balance of the Company's retained earnings. As at 31 December 2011, the Company had an accumulated deficit of RUR 965,460 thousand (USD* 29,987 thousand).

(d) Shared-based payments (Warrants)

The Group grants its key management warrants that may be converted into ordinary shares. All issued warrants have vesting periods ranging from 1 to 5 years (the common vesting condition requires continued employment with the Group). The expiry date of 31 December 2015 is common for all warrants granted to employees.

The warrants are granted to key management employees in accordance with a personal schedule of proportional yearly tranches. Each tranche of warrants can be vested a year after the grant date.

During 2011, no warrants were exercised. The Group granted 849,995 warrants to key management. Two employees left the Company, resulting in the forfeiture of 900,000 warrants. The summary information on the warrants held by Directors is described in the Corporate Governance Report.

The number and weighted average exercise prices of the warrants are as follows:

In thousands of warrants	Weighted average exercise price 12m. 2011	Number of warrants, in thousands 12m. 2011	Weighted average exercise price 12m. 2010	Number of warrants, in thousands 12m. 2010
	USD 7.27	2,207	USD 5.81	2,990
	SEK 31.89	1,486	USD 33.00	1,226
Balance at beginning of year		3,693		4,216
Forfeited during the year	USD 9.40	(300)	USD 8.50	(33)
Forfeited during the year	SEK 34.25	(600)		
Exercised during the year	USD 0.00	–	USD 0.00	–
Cancelled during the year	USD 0.00	–	USD 1.40	(750)
Granted during the year	SEK 26.71	850	SEK 26.64	260
Balance at end of year		3,643		3,693
	USD 6.94	1,907	USD 7.27	2,207
	SEK 28.53	1,736	SEK 31.89	1,486
Exercisable as at 31 December 2011	USD 6.43	1,417	USD 6.15	1,067
Exercisable as at 31 December 2011	SEK 27.21	522	SEK 28.00	245
		1,939		1,312

The weighted average remaining contractual life for the warrants outstanding as at 31 December 2011 is 3.01 years (31 December 2010: 3.25 years).

The fair value of services received in return for warrants granted is based on the fair value of warrants granted, measured using the

Black-Scholes model. Exercise prices of warrants are stipulated by the warrant certificates. Up to 2009, all exercise prices were denominated in USD and ranged from USD 2.50 to USD 12.00. Warrants issued in 2009–2011 are denominated in SEK with exercise prices ranging from SEK 16.73 to SEK 39.15.

* The USD equivalent figures are provided for information purposes only and do not form part of the consolidated financial statements – refer to note 2 (d).

Inputs into the model	Granted in 2011	Granted in 2010	Granted in 2009	Granted in 2008	Granted in 2007
Fair value at grant date	SEK 10.70	SEK 8.72	SEK 5.18	USD 1.44	USD 3.12
Share price	SEK 22.31	SEK 18.50	SEK 22.90	USD 6.09	USD 6.10
Average exercise price	SEK 27.37	SEK 26.64	SEK 33.00	USD 8.44	USD 4.28
Expected volatility (i)	92%	93%	48%	44%	35%
Option life (expected weighted average life)	2.23	2.60	3.01	3.50	4.33
Expected dividends (ii)	0%	0%	0%	0%	0%
Risk-free interest rate (based on government bonds)	1.9%	1.5%	1.7%	2.2%	4.1%

(i) Volatility is a measure of the tendency of investment returns to vary around a long-term average rate. For warrants granted before December 2008 there was not enough historical information on the Company's stock price, so historical peer group information was used to estimate the expected volatility used in the Black-Scholes model. Beginning in 2010, the expected volatility used was based on the Company's historical share price volatility since trading inception.

(ii) The Company has never declared nor paid any dividends on its shares and does not anticipate paying dividends in the foreseeable future. Consequently, the expected dividend assumption is set at zero.

The amount of share-based payment expense recognised in the consolidated statement of comprehensive income is presented in the following table:

In thousands of	RUR 12m. 2011	RUR 12m. 2010	USD* 12m. 2011	USD* 12m. 2010
Share-based payment expense	25,633	32,026	796	995
	25,633	32,026	796	995

(e) Earnings per share

The loss for the year ended 31 December 2011 was RUR 1,342,108 thousand (USD* 41,685 thousand) and in 2010 the loss was RUR 1,170,562 thousand (USD* 36,357 thousand). The weighted average number of shares outstanding during 2011 (and 2010) was 124,601,667 ordinary shares. The basic loss per share in 2011 is RUR 10.77 as compared to loss per share in 2010 – RUR 9.39. The calculation is presented below:

The amounts are indicated in	RUR 12 m. 2011	RUR 12 m. 2010	USD* 12 m. 2011	USD* 12 m. 2010
Total loss for the period	(1,342,108,000)	(1,170,562,000)	(41,685,422)	(36,357,261)
Weighted average number of shares outstanding	124,601,667	124,601,667	124,601,667	124,601,667
Basic loss per share (RUR/share, USD*/share)	(10.77)	(9.39)	(0.33)	(0.29)

Because the Company is in a net loss position, the effect of the Company's potentially dilutive securities is anti-dilutive. Outstanding warrants of 1,939 thousand and 1,312 thousand, respectively, for the years ended 31 December 2011 and 2010, have been

excluded from the weighted average number of ordinary shares for the purposes of diluted earnings per share. Accordingly, the diluted loss per share is the same as the basic loss per share for the years ended 31 December 2011 and 2010.

29 Borrowings

The total amount of loans and borrowings was RUR 3,430,879 thousand (USD* 106,562 thousand) as at 31 December 2011. This amount represents bonds payable and interest accrued (10% –

stated interest rate, 10.75% – effective interest rate) and other borrowings. The bonds are due to be redeemed in 2014 and are unsecured.

In thousands of	RUR 31-Dec-11	RUR 31-Dec-10	USD* 31-Dec-11	USD* 31-Dec-10
Unsecured SEKBonds – at amortised cost	3,418,091	3,453,027	106,165	107,250
Non-current	3,265,713	3,297,387	101,432	102,416
Current	152,378	155,640	4,733	4,834
Unsecured borrowings – at amortised cost	12,788	11,782	397	366
Current	12,788	11,782	397	366
Total borrowings	3,430,879	3,464,809	106,562	107,616

In 2010, the Group issued Bonds with a nominal amount of SEK 750,000,000. The Bonds bear an interest coupon of 10%, payable annually on the anniversary date (1 July). The Bonds are due to be redeemed in 2014 and are listed on the Nasdaq OMX Stockholm exchange.

During the period May–June 2011, the Group repurchased a total amount of SEK 58.7 million of its bonds at a weighted average of 102.6% of its nominal value. The repurchase cost totaled RUR 292,658 thousand (USD* 9,181 thousand), which included nominal value of RUR 268,330 thousand (USD* 8,418 thousand) and accrued interest of RUR 24,328 thousand (USD* 763 thousand). As a result of these transactions, the Group realized a net loss of RUR 12,356 thousand (USD* 388 thousand).

On 1 July 2011, the Group paid annual interest payment in the amount of RUR 305,874 thousand (USD* 9,596 thousand).

In December 2011 the Group sold SEK 18.7 million of its bonds that were purchased during the first half of 2011. The Group received a total of RUR 87,303 thousand (USD* 2,712 thousand) from the sale.

The bonds are subject to certain covenants as stipulated in the bond agreement. The main covenant requirements include the following:

- the ratio of total debt to total shareholders' equity should not exceed 75%;
- the Company or its subsidiaries should not declare a dividend or distribution of capital (whether in cash or specie), redeem or purchase any of its shares or make other similar distributions to shareholders or otherwise reduce its capital in the amount exceeding 30 per cent of the most recent financial year's net profit in the consolidated basis;

* The USD equivalent figures are provided for information purposes only and do not form part of the consolidated financial statements – refer to note 2 (d).

- the Company and its subsidiaries should not raise any market loan;
- the Company should not provide or permit to subsist any security or permit someone else to provide security in the form of guarantee or otherwise for any market loan raised by the Company;

- the Company should use the funds raised from the issuance of bonds within the ordinary course of business.

As at and for the year ended 31 December 2011, the Group is in compliance with all covenants stipulated in the bond agreement.

30 Trade and other payables

In thousands of

	RUR 31-Dec-11	RUR 31-Dec-10	USD* 31-Dec-11	USD* 31-Dec-10
Trade payables	170,318	89,074	5,291	2,766
Taxes other than on income	74,073	36,220	2,301	1,125
Advances received	72,767	19,958	2,260	620
Other payables	64,424	38,759	2,001	1,203
Payable to personnel	9,546	8,202	296	255
Income tax payable	72	52	2	2
	391,200	192,265	12,151	5,971

The average credit period on purchases of goods is 25 days. No interest is charged on trade payables. The Group has financial risk

management policies in place to ensure that all payables are paid within the credit timeframe.

31 Financial instruments

(a) Categories of financial instruments

In thousands of

	RUR 12 m. 2011	RUR 12 m. 2010	USD* 12 m. 2011	USD* 12 m. 2010
<i>Financial assets</i>				
Loans and receivables, including:	1,077,312	3,002,027	33,461	93,242
– Cash and cash equivalents	985,452	2,982,817	30,608	92,645
– Loans issued	–	1,431	–	44
– Trade and other receivables	91,860	17,779	2,853	552
<i>Financial liabilities</i>				
Amortised cost including:	3,604,344	3,558,612	111,950	110,529
– Loans and borrowings	3,430,879	3,464,809	106,562	107,616
– Trade and other payables	173,465	93,803	5,388	2,913

(b) Credit risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Group's investment securities.

Trade and other receivables. Most of the domestic sales are made on a prepayment or cash on delivery basis. The export sales in con-

trast are usually made on credit terms. The Group is not significantly exposed to credit risk in relation to receivables.

Investments. The Group limits its exposure to credit risk by placing surplus funds on deposit with a variety of established banks in Russia and abroad. Management does not expect any counterparty to fail to meet its obligations.

Guarantees. There are no guarantees provided by the Group.

Exposure to credit risk

The carrying amount of financial assets represents the maximum credit exposure. The maximum exposure to credit risk at the reporting date was:

In thousands of

	RUR 12 m. 2011	RUR 12 m. 2010	USD* 12 m. 2011	USD* 12 m. 2010
Loans and receivables	1,077,312	3,002,027	33,461	93,242
	1,077,312	3,002,027	33,461	93,242

The ageing analysis of trade and other receivables, loans issued is presented in the table below:

In thousands of RUR

	12 m. 2011		12 m. 2010	
	Gross amount	Impairment	Gross amount	Impairment
Not past due	89,221	–	17,362	–
Past due	9,797	(7,158)	8,102	(6,254)
less than six months	379	(379)	1,940	(433)
over six month	9,418	(6,779)	6,162	(5,821)
	99,018	(7,158)	25,464	(6,254)

In thousands of USD*

	12 m. 2011		12 m. 2010	
	Gross amount	Impairment	Gross amount	Impairment
Not past due	2,771	–	538	–
Past due	304	(222)	252	(194)
less than six months	12	(12)	60	(13)
over six month	293	(211)	191	(181)
	3,075	(222)	790	(194)

* The USD equivalent figures are provided for information purposes only and do not form part of the consolidated financial statements – refer to note 2 (d).

(c) Liquidity risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. The Group's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation.

The financial markets, both globally and in Russia, have faced significant volatility and liquidity constraints since the onset of the global financial crisis, which began to unfold in the autumn of 2007 and worsened since August 2008. A side effect of those events was an increased concern about the stability of the financial markets generally and the strength of counterparties, and many lenders and institutional investors have reduced funding to borrowers, which has significantly reduced the liquidity in the global financial system.

The global financial turmoil has significantly affected Russia's economy. It has resulted in a decrease of Russia's GDP, significant declines in debt and equity prices and a substantial outflow of capital. Russia is also facing a relatively high level of inflation. Because Russia produces and exports large volumes of oil and gas, Russia's economy is particularly sensitive to the price of oil and gas on the world market that fluctuated significantly during 2010 and 2011. The Russian government initiated the adoption of a package of federal laws and regulations to restore investor confidence, provide liquidity and support medium-term growth of Russia's economy, however at this stage there is no clarity with respect to efficiency of these measures.

While many countries, including Russia, have recently reported improvement of the situation in the financial markets, a further downturn can still occur, and further state support measures might be required. Adverse changes arising from systemic risks in global financial systems, including any tightening of the credit environment or from decline in the oil and gas prices could slow or disrupt the Russian economy, adversely affect the Group's access to capital and cost of capital for the Group and, more generally, its business, results of operations, financial condition and prospects.

While the Russian government has introduced a range of stabilization measures aimed at providing liquidity to Russian banks and companies, there continues to be uncertainty regarding the access to capital and cost of capital for the Group and its counterparties, which could affect the Group's financial position, results of operations and business prospects.

Debtors of the Group may be affected by the lower liquidity situation which could in turn impact their ability to repay the amounts owed. Deteriorating operating conditions for debtors may also have an impact on management's cash flow forecasts and assessment of the impairment of financial and non-financial assets.

Management is unable to reliably estimate the effects on the Group's financial position of any further deterioration in the liquidity of the financial markets and the increased volatility in the currency and equity markets. Management believes it is taking all the necessary measures to support the sustainability and growth of the Group's business in the current circumstances.

The following are the contractual maturities of financial liabilities, including estimated interest payments and excluding the impact of netting agreements:

31 December 2011 In thousands of RUR	Interest rate		Less than	From 1	From 2	Total
	Contractual	Effective	1 year	to 2 years	to 5 years	
<i>Fixed interest rate instruments</i>						
Loans and borrowings	10%	10.75%	316,752	316,752	3,484,268	4,117,771
<i>Non-interest bearing</i>						
Trade and other payables			173,465	—	—	173,465
			490,217	316,752	3,484,268	4,291,236
31 December 2011 In thousands of USD*	Contractual	Effective	Less than	From 1	From 2	Total
			1 year	to 2 years	to 5 years	
<i>Fixed interest rate instruments</i>						
Loans and borrowings	10%	10.75%	9,838	9,838	108,220	127,897
<i>Non-interest bearing</i>						
Trade and other payables			5,388	—	—	5,388
			15,226	9,838	108,220	133,284
31 December 2010 In thousands of RUR	Contractual	Effective	Less than	From 1	From 2	Total
			1 year	to 2 years	to 5 years	
<i>Fixed interest rate instruments</i>						
Loans and borrowings	10%	10.75%	336,038	336,038	4,032,450	4,704,526
<i>Non-interest bearing</i>						
Trade and other payables			93,803	—	—	93,803
			429,841	336,038	4,032,450	4,798,329
31 December 2010 In thousands of USD*	Contractual	Effective	Less than	From 1	From 2	Total
			1 year	to 2 years	to 5 years	
<i>Fixed interest rate instruments</i>						
Loans and borrowings	10%	10.75%	10,437	10,437	125,247	146,121
<i>Non-interest bearing</i>						
Trade and other payables			2,913	—	—	2,913
			13,351	10,437	125,247	149,034

* The USD equivalent figures are provided for information purposes only and do not form part of the consolidated financial statements – refer to note 2 (d).

(d) Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and equity prices will affect the Group's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return.

The current market risk faced by the Group is further described in note 33 (c).

Currency risk

The Group is exposed to currency risk on borrowings that are denominated in a currency other than the respective functional currencies of Group entities, primarily the Russian Rouble (RUR). The currency in which such borrowings primarily are denominated is SEK.

The Group does not hedge currency risk; however, the Group has sufficient SEK-denominated deposits in order to meet its interest payment obligation.

Exposure to currency risk

The Group's exposure to foreign currency exchange rate risk determined as the net monetary position in respective currencies was as follows:

In thousands of	RUR 2011	RUR 2010	USD* 2011	USD* 2010
USD/RUR	(20,637)	745,552	(641)	23,157
EUR/RUR	178,532	718,919	5,545	22,329
SEK/RUR	(3,131,556)	(2,131,748)	(97,265)	(66,211)

The following significant exchange rates applied during the year:

	RUR Rate at 31 December 2011	RUR Average rate for the year 2011	RUR Rate at 31 December 2010	RUR Average rate for the year 2010
1 USD	32.1961	29.3874	30.4769	30.3773
1 EURO	41.6714	40.8848	40.3331	40.1953
1 SEK	4.6612	4.5253	4.4805	4.2221

Foreign currency sensitivity analysis

A 10% weakening of the RUR against the following currency at 31 December would have increased/(decreased) equity and profit or loss by the amounts shown below. This analysis assumes that all other variables, in particular interest rates, remain constant. The analysis is performed on the same basis for 2010.

In thousands of	RUR Equity	RUR Profit or loss	USD* Equity	USD* Profit or loss
2011				
USD	(2,064)	(2,064)	(64)	(64)
EURO	17,853	17,853	555	555
SEK	(313,156)	(313,156)	(9,727)	(9,727)
2010				
USD	74,555	74,555	2,446	2,446
EURO	71,892	71,892	2,359	2,359
SEK	(213,175)	(213,175)	(6,995)	(6,995)

A 10% strength of the RUR against the above currency at 31 December would have had the equal, but opposite effect on the above currencies to the amounts shown above, on the basis that all other variables remain constant.

Interest rate risk

The Group adopts a policy of limiting its exposure to changes in interest rates by borrowing on a fixed rate basis.

Changes in interest rates impact primarily loans and borrowings by changing either their fair value (fixed rate debt) or their future cash flows (variable rate debt). Management does not have a formal policy of determining which proportion of the Group's exposure should be to fixed or variable rates. However, at the time of raising new loans or borrowings management uses its judgment to decide whether it believes that a fixed or variable rate would be more favourable to the Group over the expected period until maturity.

Fair value sensitivity analysis for fixed rate instruments

The Group does not account for any fixed rate financial assets and liabilities at fair value through profit or loss. Therefore a change in interest rates at the reporting date would not affect profit or loss.

(e) Capital management

The Board's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business. The Board of Directors monitors the return on capital.

There were no changes in the Group's approach to capital management during the year.

The capital structure of the Group consists of debt (note 29), cash and cash equivalents (note 27) and equity, comprising issued capital, reserves and retained earnings (note 28).

The company and its subsidiaries are subject to capital requirements stipulated in the bond agreement (note 29).

(f) Fair values

A number of the Group's accounting policies and disclosures require the determination of fair value, for both financial and non-financial assets and liabilities. Fair values have been determined for measurement and for disclosure purposes based on the following methods. When applicable, further information about the assumptions made in determining fair values is disclosed in the notes specific to that asset or liability.

Trade and other receivables

The fair value of trade and other receivables is estimated as the present value of future cash flows, discounted at the market rate of interest at the reporting date.

Non-derivative financial liabilities

Fair value, which is determined for disclosure purposes, is calculated based on the present value of future principal and interest cash flows, discounted at the market rate of interest at the reporting date.

Management believes that the fair value of the Group's financial assets and liabilities approximates their carrying amounts.

The interest rates used to discount estimated cash flows, where applicable, were as follows:

	2011	2010
Loans and borrowings	10%	10%

* The USD equivalent figures are provided for information purposes only and do not form part of the consolidated financial statements – refer to note 2 (d).

32 Operating leases

Non-cancellable operating lease commitments are as follows:

In thousands of

	RUR 12m. 2011	RUR 12m. 2010	USD* 12m. 2011	USD* 12m. 2010
Not later than one year	32,349	29,263	1,005	909
Later than 1 year and not later than 5 years	54,041	68,382	1,678	2,124
Later than 5 years	295,074	277,764	9,165	8,627
	381,464	375,409	11,848	11,660

The Group leases a number of land plots under operating leases. The lease term is typically for an initial period of forty-nine (49) years.

The Group also leases offices in Moscow for the management

company. The contract is for a three year period with an option to cancel the lease with one month's notice. During the current year, RUR 51,028 thousand (USD* 1,585 thousand) of rent expense was recognised in profit and loss in respect of operating leases.

33 Contingencies and commitments

(a) Taxation contingencies

The taxation system in the Russian Federation is relatively new and is characterized by frequent changes in legislation, official pronouncements and court decisions, which are often unclear, contradictory and subject to varying interpretation by different tax authorities. Taxes are subject to review and investigation by a number of authorities, which have the authority to impose severe fines, penalties and interest charges. A tax year remains open for review by the tax authorities during the three subsequent calendar years; however, under certain circumstances a tax year may remain open longer. Recent events within the Russian Federation suggest that the tax authorities are taking a more assertive position in their interpretation and enforcement of tax legislation.

These circumstances may create tax risks in the Russian Federation that are substantially more significant than in other countries. Management believes that it has provided adequately for all tax liabilities based on its interpretations of applicable Russian tax legislation, official pronouncements and court decisions. However, the interpretations of the relevant authorities could differ and the effect on these consolidated financial statements, if the authorities were successful in enforcing their interpretations, could be significant.

(b) Russian Federation risk

The Group's principal activities are within the Russian Federation. Laws and regulations affecting businesses operating in the Russian Federation are subject to rapid changes and the Group's assets and operations could be at risk in the event of negative changes in the political and business environment.

Since the 1980s, the former Union of Soviet Socialist Republics, including Russia, has been undergoing a substantial political transformation from a one party state with a centrally planned economy under Communist rule to a pluralist democracy with a market economy. There can be no assurance that the political and economic reforms necessary to complete such a transformation will continue. In its current relatively nascent stage, the Russian political system is vulnerable to the population's dissatisfaction with reforms, social and ethnic unrest and changes in governmental policies. In light of these conditions, the Russian public has largely supported increased centralized authority and renationalization and governmental control of key industries. In addition, a failure of salaries and benefits to keep pace with the rapidly increasing cost of living or changes in government funded benefits or perceived unfairness in the distribution of wealth could lead to social unrest in the future. Low birth rates and life expectancies in Russia are expected to result in significant declines in the population over the next few decades. These declines, combined with increasing immigration, could pose significant risks to political and social stability in Russia.

The Russian Federation risk is further described in Notes 1 (b) and Note 31 (c).

(c) Risks relating to the Group

Agricultural market risk

As a rule, grain prices exhibit rather high seasonal fluctuation. As a general trend, prices tend to be lower in autumn mainly due to the increasing in supply. Market prices of agricultural commodi-

ties are also influenced by a variety of unpredictable factors which are beyond the control of the Group, including weather, planting intentions, government (Russian and foreign) farm programmes and policies, changes in global demand resulting from population growth and higher standards of living and global production of similar and competitive crops.

The Group's holding of agricultural assets

Indirectly through Russian entities the Group has been established to acquire, lease and manage agricultural assets, currently in Russia. The success of the Group will depend largely upon the ability of the Group's management to identify and acquire or lease appropriate assets and the terms under which such assets are acquired or leased and its ability to fully register its ownership and/or lease title to land, which is a prolonged and complicated process. The Group does not rule out the possibility that some legislative amendments can be passed which can either make this process more efficient and attractive to the Group or on the contrary limit the possibilities of converting such land from leasehold into freehold.

The Group may be limited in its ability to obtain full ownership rights to land

The Group intends to finalise registration of all land under the Group's control. There are no guarantees that the owners of the land will sell their land to the Group and there are no guarantees that there will not be materially adverse changes in laws or the interpretation of existing laws or materially adverse regional decrees that could limit the Group in its ability to obtain full ownership title to the land. Further, there are no guarantees that the Group will not be prevented from registering acquired land or that the current landowners will not cancel the powers of attorney given to the Group, which allow the Group to complete the necessary registration procedures.

Russian agricultural infrastructure deficiency

An important factor for the Group's success and stability is its ability to safely treat and store the production after harvest. The Group is investing into internal infrastructure, capable of fully covering the Group's own crop storage needs. In the meantime, the Group will have to partly store its production in facilities owned by third parties. There are inevitable and important losses linked to such third-party facilities since they are often mismanaged and the supply of facilities is limited.

Finished product off takers

The Group operates in an environment where there are no guarantees that the Group will find sufficient appropriate off takers for its production, or off takers who are reliable enough. Especially in the current strained economic environment, when many companies are suffering with liquidity and solvency issues. Such third-party risks can create costs or losses which could adversely affect the Group's business, operating results, financial condition and cash flows.

Insurance

The insurance industry in the Russian Federation is in a developing state and many forms of insurance protection common in other parts of the world are not yet generally available. The Group does

* The USD equivalent figures are provided for information purposes only and do not form part of the consolidated financial statements – refer to note 2 (d).

not have full coverage for weather-related risks which may impact crop results, its elevators and other owned property, plant and equipment, business interruption, or third party liability in respect of property or environmental damage arising from accidents on Group property or relating to Group operations. Until the Group obtains adequate insurance coverage, there is a risk that the loss or destruction of certain assets could have a material adverse effect on the Group's operations and financial position.

Poor or unexpected weather conditions

Weather conditions are a significant operating risk affecting the Group. Poor weather conditions (whether too dry or too wet) and unpredictable climate changes may adversely affect farm output which, in turn, may negatively affect the Group's business.

Animal diseases

Livestock such as cows are vulnerable to virus infections and other infectious diseases, including foot and mouth disease. Although the Directors believe that the Group's dairy operations follow high sanitary standards that minimize the risk of spreading infectious diseases, no assurances can be given that the Group's livestock will not be infected from sources outside the Group's control. A serious outbreak of infectious animal diseases may result in costs or losses which could adversely affect the Group's business, financial condition and results of operations.

(d) Commitments for expenditure

In thousands of	RUR 12 m. 2011	USD* 12 m. 2011
Commitments for acquisition of property, plants and equipment	79,826	2,479
Commitments for acquisition of materials	211,037	6,555
Commitments for lease agreements	32,349	1,005
	323,212	10,039

34 Related party transactions

During the year, the Group entered into the following transactions with related parties that are not members of the Group.

In thousands of	RUR 12 m. 2011	RUR 12 m. 2010	USD* 12 m. 2011	USD* 12 m. 2010
<i>Purchase of services from related parties</i>				
Vostok Komi (Cyprus) Ltd	–	2,502	–	78
Kinnevik AB Investment	123	–	4	–
KinnAgri Ltd (i)	38,498	–	1,196	–
	38,621	2,502	1,200	78
<i>Accounts payable owed to related parties</i>				
KinnAgri Ltd (i)	13,704	–	426	–

(i) KinnAgri Ltd provided consultancy services and a review of BEF crop production performance. All contracts have been scrutinised for arms length and have been approved by the members of the Board of Directors independent from Kinnevik.

The amounts outstanding are unsecured and will be settled in cash. No expense has been recognised in the current or prior periods for bad or doubtful debts in respect of the amounts owed by related parties.

Salaries and other remuneration for Directors and other senior executives

In thousands of RUR	12m. 2011 Board of directors (6 positions)	12m. 2011 Senior executives (11 positions) (ii)	12m. 2010 Board of directors (6 positions)	12m. 2010 Senior executives (8 positions)
Salaries and bonuses	10,264	62,588	12,802	81,640
Share-based payments	7,420	18,213	7,277	24,749
Termination payments	–	21,535	–	–
Assessments to the State Pension Fund	–	399	–	338
Total	17,683	102,735	20,079	106,726
In thousands of USD*	12m. 2011 Board of directors (6 positions)	12m. 2011 Senior executives (11 positions) (ii)	12m. 2010 Board of directors (6 positions)	12m. 2010 Senior executives (8 positions)
Salaries and bonuses	319	1,944	398	2,536
Share-based payments	230	566	226	769
Termination payments	–	669	–	–
Assessments to the State Pension Fund	–	12	–	10
Total	549	3,191	624	3,315

(ii) Some of the positions were occupied only partly during 2011 (e.g. CFO post).

* The USD equivalent figures are provided for information purposes only and do not form part of the consolidated financial statements – refer to note 2 (d).

35 Statement of Financial Position for Black Earth Farming Limited (the Company)

In thousands of	RUR 31-Dec-11	RUR 31-Dec-10	USD* 31-Dec-11	USD* 31-Dec-10
ASSETS				
Non-current assets				
Loans issued	13,628,046	11,829,984	423,283	367,435
Total non-current assets	13,628,046	11,829,984	423,283	367,435
Current assets				
Trade and other receivables	7,475	12,595	232	391
Cash and cash equivalents	345,430	2,789,745	10,729	86,649
Total current assets	352,905	2,802,340	10,961	87,040
Total assets	13,980,951	14,632,324	434,244	454,475
EQUITY AND LIABILITIES				
Equity				
Share capital	32,921	32,921	1,023	1,023
Share premium and reserves	11,453,920	11,428,287	355,755	354,959
Accumulated deficit	(965,460)	(293,908)	(29,987)	(9,129)
Total equity	10,521,381	11,167,300	326,791	346,853
LIABILITIES				
Non-current liabilities				
Non-current loans and borrowings	3,265,713	3,297,387	101,432	102,416
Total non-current liabilities	3,265,713	3,297,387	101,432	102,416
Current liabilities				
Current loans and borrowings	157,407	160,668	4,889	4,990
Trade and other payables	36,450	6,969	1,132	216
Total current liabilities	193,857	167,637	6,021	5,206
Total liabilities	3,459,570	3,465,024	107,453	107,622
Total equity and liabilities	13,980,951	14,632,324	434,244	454,475

The Company's loss for the year was RUR 671,552 thousand or USD* 20,858 thousand (2010: loss was RUR 126,278 thousand or USD* 3,922 thousand).

36 Significant subsidiaries

	Country of incorporation	Ownership and voting interest 31-Dec-11	Ownership and voting interest 31-Dec-10	Principal activity
Planalto Enterprises Limited	Cyprus	100%	100%	Management
000 Management Company Agro-Invest (Moscow), limited liability company	Russia	100%	100%	Management
000 Nedvizhimost'	Russia	100%	100%	Elevators
000 Agroterminal	Russia	100%	100%	Elevators
ZAO Dmitriev Agro-Invest	Russia	100%	100%	Agriculture
ZAO Gorshechnoje Agro-Invest	Russia	100%	100%	Agriculture
000 Sosnovka Agro-Invest	Russia	100%	100%	Agriculture
000 Stanovoj Agro-Invest	Russia	100%	100%	Agriculture
ZAO Kastornoje Agro-Invest	Russia	100%	100%	Agriculture
ZAO Agro-Invest Kshen	Russia	100%	100%	Agriculture
ZAO Kursk Agro-Invest	Russia	100%	100%	Agriculture
000 Bezenchuk Agro-Invest	Russia	100%	100%	Agriculture
000 Verhnaja Hava Agro-Invest	Russia	100%	100%	Agriculture
000 Ostrogorszhsk Agro-Invest	Russia	100%	100%	Agriculture
000 Podgornoje Agro-Invest	Russia	100%	100%	Agriculture
000 Agrolipetzk	Russia	100%	100%	Agriculture
000 Novokhopersk Agro-Invest	Russia	100%	100%	Agriculture
000 Vorobyevka Agro-Invest	Russia	100%	100%	Agriculture
000 Gribovka Agro-Invest	Russia	100%	100%	Agriculture
000 Kalach Agro-Invest	Russia	100%	100%	Agriculture
000 Shatsk Agro-Invest	Russia	100%	100%	Agriculture
000 Morshansk Agro-Invest	Russia	100%	100%	Agriculture
000 Usman' Agro-Invest	Russia	100%	100%	Agriculture
000 Staroyur'ev Agro-Invest	Russia	100%	100%	Agriculture
0AO Kalacheevskaya selkhozkhimia	Russia	100%	100%	Agriculture
000 Belgorodka Agro-Invest	Russia	100%	100%	Agriculture
0AO Kastorenskaya MTS	Russia	100%	100%	Agriculture
000 Chelnovaya Agro-Invest	Russia	100%	100%	Agriculture
000 Izmalkovo Agro-Invest	Russia	100%	100%	Agriculture
000 Storozhevoye Agro	Russia	100%	100%	Agriculture
000 Usmanskaya zemlya	Russia	100%	100%	Agriculture
000 L'gov Agro-Invest	Russia	100%	100%	Agriculture
000 Don	Russia	100%	100%	Agriculture

37 Subsequent event

No significant subsequent events have occurred.

* The USD equivalent figures are provided for information purposes only and do not form part of the consolidated financial statements – refer to note 2 (d).

Board, Management and Auditors

Board of Directors

Per Brilioth, *Chairman of the Board*

Swedish citizen, born in 1969

Principal education: Mr. Brilioth holds a BA in Business Administration from the University of Stockholm, and a Master of Finance from the London Business School.

Work experience: Mr. Brilioth is managing director and member of the board of Vostok Nafta Investment Ltd. In addition Mr. Brilioth is currently Chairman of the Board of Clean Tech East Holding AB, a member of the Board of Directors of RusForest AB, Vostok Gas Ltd., Vostok Gas Sverige AB, Vostok Nafta Sverige AB, and a Director of Kontakt East Holding AB (publ), X5 Group AB and a Deputy Director of the Board of Kontakt East Optionsaktiebolag.

Shareholdings: 0 SDRs

Sture Gustavsson, *Executive Director and Chief Agronomist*

Swedish citizen, born in 1959

Principal education: Mr. Gustavsson has a degree from the Swedish University of Agricultural Sciences.

Work experience: Mr. Gustavsson was managing director of Mellersta Sveriges Lantbruks AB since 1996. MSLA is a wholly-owned subsidiary of Investment AB Kinnevik which currently owns and runs farms in Poland.

Shareholdings: 7,000 SDRs

Call Options: 59,492

Henrik Persson, *Non-executive Director*

Swedish citizen, born in 1974

Principal education: Mr. Persson holds a BA in Business Administration from the University of Lund, with additional courses taken at the Georgetown University in Washington D.C and London School of Economics.

Work experience: Mr. Persson has been employed in various positions within Investment AB Kinnevik since 2003. Between 1999 and 2003, Henrik Persson was employed by HSBC Investment Bank, mainly with a focus on the telecom and media industries. Henrik Persson is also member of the board of Kontakt East Holding AB, Mellersta Sveriges Lantbruks AB and Relevant Traffic Europe AB.

Shareholdings: 4,000 SDRs

Call Options: 59,492

Poul Schroeder, *Non-executive Director and Chairman of Operations Committee*

Danish citizen, born in 1944

Principal education: Mr. Schroeder is a graduate in commerce from Aarhus Commerce School and has completed the International Senior Management Program at Columbia University.

Work experience: Mr. Schroeder is an independent consultant and has been active in the international agricultural industry since 1966, among others, within the Continental Grain Company and Bunge. Mr. Schroeder is Chairman of the Board of AlphaCapita and Dan Store.

Shareholdings: 20,000 SDRs

Magnus Unger, *Non-executive Director*

Swedish citizen, born in 1942

Principal education: Mr. Unger holds a Master of Science in Economics and Business from Stockholm School of Economics.

Work experience: Mr. Unger is a businessman with many years of industrial experience, with among others SCA/Mölnlycke and Atlas Copco. Mr. Unger is a member of the Board of Lundin Petroleum AB and chairman of the Board of Calkonsult AB.

Shareholdings: 150,000 SDRs

Call Options: 59,492

Alex Gersh, *Non-executive Director and Chairman of Audit Committee*

American citizen, born in 1964

Principal education: Mr. Gersh holds a Bachelor's degree in Business Administration from Baruch College (City University of New York) with honours and is a member of the Institute of Certified Public Accountants (CPA).

Work experience: Mr. Gersh is the CFO of NDS Group Limited, a leading global supplier of open end-to-end digital pay TV solutions. Mr. Gersh has since 2003 also been the Chairman of the Audit Committee in VimpelCom Inc, a leading provider of telecommunications services in Russia. Mr. Gersh has formerly been the CFO of Flag Telecom, Motorola NGM, NextiraOne LLC and Transora. He has also worked as public accountant at Ernst & Young, as controller at Metro Mobile Communications and as Finance Director in a number of companies, including British Telecommunications Europe, BT Cellnet and Motorola NGM.

Shareholdings: 0 SDRs

Richard Warburton, *Executive Director and CEO*

British citizen, born in 1966

Principal education: Mr. Warburton holds a Bachelor of Science degree in Agriculture from the University of Newcastle and an MBA.

Work experience: Mr. Warburton was previously Equity Partner and Head of Agribusiness Bidwells 1999–2010 and a Director of British Field Products 1994–1998. He is currently a Director of KinnAgri Limited, an international agribusiness management and consultancy business and a Director

of Kinnevik Agri AB and Rolnyvik , both of which are companies in the Investment AB Kinnevik group.

Shareholdings: 19,250 SDRs

Call Options: 59,492

Group management

Richard Warburton, *Chief Executive Officer*

See also “Board of Directors” above.

Alexander Betsky, *Chief Financial Officer*

Canadian citizen, born in 1969

Principal education: Mr. Betsky holds a Bachelor of Commerce degree and a Graduate Diploma in Public Accounting, both from McGill University.

Work experience: Before joining BEF, Mr. Betsky was a regional CFO at Weatherford International with responsibility for FSU countries, and was CFO of Sibir Energy plc from 2000 to 2008. Prior to 2000, he worked as a corporate finance executive at Dresdner Kleinwort Benson in Moscow. Mr. Betsky also has accounting and audit experience with Ernst & Young and Lippman Leebosh April in Canada prior to 1998. Mr. Betsky speaks fluent English, Russian and French.

Shareholdings: 0 SDRs

Fraser Scott, *Chief Operating Officer*

British citizen, born in 1961

Principal education: Mr. Scott holds a BSc (Agric) Hons in Agriculture from Newcastle University.

Work experience: Mr. Scott has more than 20 years experience of large scale corporate farm management, most recently as head of arable and potato operations on 20 thousand hectares of arable farming and food operations at the Co-operative farms in the UK. He has also been involved in several large scale agribusinesses as farm and operations manager at Booker, Broad Oak and the Co-operative farms in the UK.

Shareholdings: 0 SDRs

Sture Gustavsson, *Chief Agronomist*

See also “Board of Directors” above.

Richard Willows, *Director of Sales & Marketing*

British citizen, born in 1953

Mr. Willows has a background in trading of agricultural commodities, specializing in the marketing of quality assured grains and oilseeds for the food industry including direct exporting to key customers in the Baltic States and Europe. He has more than 15 years of experience working in Russia and prior to BEF Richard held the position of General Director of OOO Heartland Farms in the Penza region of Russia. Established in 2002 it was one of the first foreign investors in Russian farming.

Shareholdings: 0 SDRs

Gustav Wetterling, *Director of Procurement*

Swedish citizen, born in 1981

Principal education: Mr. Wetterling holds a Master of Science in Economics and Business from the Stockholm School of Economics.

Work experience: Mr. Wetterling joined the Group in July 2007. Previously Mr. Wetterling worked for the Russia-focused investment company Vostok Nafta Investment Ltd, from 2006. He has previously also worked for Svenska Handelsbanken in Moscow and has additional experience from the finance and consulting sector in Sweden.

Shareholdings: 1,600 SDRs

Erik Lystedt, *Director of Investor Relations*

Swedish citizen, born in 1984

Principal education: Mr. Lystedt holds a Master of Science in Economics and Finance from the Stockholm School of Economics.

Work experience: Mr. Lystedt joined the Group in August 2010. Mr. Lystedt has in depth experience from the investor community having worked at Vostok Nafta Investment Ltd, and in different investment research positions at Swedish banks Nordea and Swedbank.

Shareholdings: 0 SDRs

Auditors

Deloitte

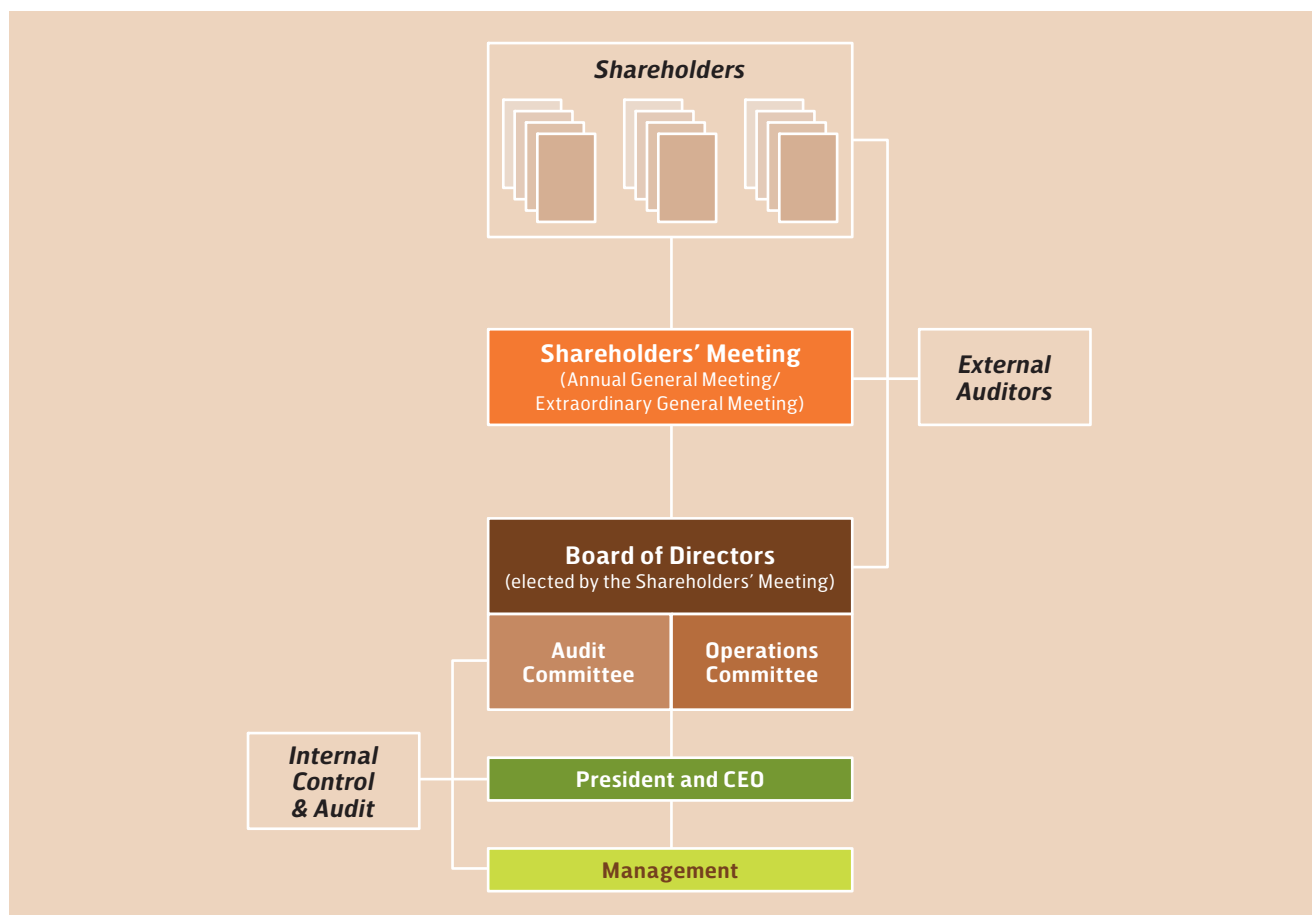
Principal auditors:

Svante Forsberg, *Group Audit Partner*

Mr. Forsberg is a Swedish citizen, born in 1952.

Deloitte are the appointed auditors since 2008. Among other entities Mr. Forsberg is the lead auditor of Alliance Oil, Anticimex, Connecta, Diligentia, Fabege, Skandia Liv and Swedbank. He has no engagements in entities related to the main owners of Black Earth Farming Ltd. or the CEO of Black Earth Farming Ltd.

Corporate Governance Report



Introduction

Black Earth Farming is a limited liability company registered in Jersey. The Board of Directors (the “Board”) takes great emphasis on sound corporate governance. In the absence of a Jersey Code of Corporate Governance Black Earth Farming applies the Swedish Code of Corporate Governance (“the Code”), as is also required by Nasdaq OMX Stockholm, the regulated stock exchange where the Company’s shares are traded. The Company will apply the Code in full or, where applicable, explain deviations from it. Establishment of this report is part of the Code’s requirements. The principles of corporate governance in Black Earth Farming are described below and governed by its Articles of Association, applicable laws, exchange requirements & praxis including the Swedish Code of Corporate Governance. This report has not been subject for review by the Company’s auditors.

Black Earth Farming’s articles of association as well as a reproduction of this report and additional Corporate Governance information such as outtakes of important corporate policies are available on the Group’s website www.blackearthfarming.com.

Shareholders meetings

The Annual General Meeting (“AGM”) is the highest decision-making body of Black Earth Farming, in which all shareholders are entitled to attend in person or by proxy to cast their votes on important company matters. Subject to the provisions of the The Companies (Jersey) Law 1991 as amended (“Law”), an Annual General Meeting shall be held in Sweden or in such other place as may be determined by

Name	Title	Born	Nationality
Per Brilioth	Chairman of the board	1969	Swedish
Sture Gustavsson	Executive Director	1959	Swedish
Alex Gersh	Non-executive Director	1964	American
Poul Schroder	Non-executive Director	1944	Danish
Henrik Persson	Non-executive Director	1974	Swedish
Magnus Unger	Non-executive Director	1942	Swedish
Richard Warburton	President and CEO	1966	British

Number of meetings in 2011

the Board and at such time and place as the Board may determine, in the Swedish and English language, once per year, no later than six months after the end of the financial year.

The regular business that is to be transacted at an Annual General Meeting is the receipt and consideration of the annual accounts and the reports of the Directors and the Auditors and any other document required to be annexed to the annual accounts, the declaration of dividends, the election or re-election of Directors and the re appointment of the Auditors retiring and the fixing of the remuneration of the Auditors or the determination of the manner in which such remuneration is to be fixed.

In 2011, Black Earth Farming held the Annual General Meeting on 25 May 2011 at Storgatan 19 in Stockholm, Sweden. As per the published agenda and minutes, the AGM adopted the consolidated profit and loss statement for the period 1 January to and including 31 December 2010, as well as balance sheet and the consolidated balance sheet as of 31 December 2010, it was resolved upon the election of Board of Directors and auditors, with Deloitte as the Company's continued auditors. It was furthermore resolved not to pay any dividends for 2010.

Appointment and remuneration of the Board and Auditors

Shareholders in the Company have the right to nominate members of the Board of Directors, and auditors, to the Annual General Meeting. The AGM elects members of the Board of Directors for a term of one year and auditors for a period of one year. The shareholders also propose remuneration for the Board of Directors and auditors, which is to be resolved by the AGM. In accordance with the Code, the Company has a nomination committee which prepares proposals for the election and remuneration of members of the Board of Directors and auditors for the AGM.

In accordance with the resolution of the 2011 Annual General Meeting, a Nomination Committee consisting of members representing the three largest shareholders in the Company per the last business day in August 2011 was appointed. The Nomination Committee for the 2011 AGM is comprised of Per Brilioth, on behalf of Vostok Nafta Investment Ltd, Mia Brunell Livfors, on behalf of Kinnevik New

Ventures AB (a subsidiary of Investment AB Kinnevik), and Leif Törnvall, on behalf of Alecta. Per Brilioth is Chairman of the Nomination Committee which is a deviation from the Code as the Company sees it appropriate for the major shareholders to determine the board composition. At the time of its formation the Nomination Committee represented approximately 59 percent of the shares in Black Earth Farming.

The Board of Directors

The 2011 Board of Directors

The Articles of Association stipulate that there shall be no maximum number of Directors unless and until otherwise determined by the Company in a general meeting by ordinary resolution. However, the minimum number of Directors (other than any alternate Directors) shall be two. At the AGM 2011 it was resolved that the Board until next AGM shall consist of 7 members. All directors were re-elected at the 2011 AGM namely: Per Brilioth, Henrik Persson, Alex Gersh, Sture Gustavsson, Poul Schroder, Richard Warburton and Magnus Unger. For a detailed presentation of the current Board, until the AGM 2012, see section "Board, management and auditors" in the formal annual report. The Code states that it is possible for major shareholders of Swedish companies to appoint a majority of members with whom they have close ties. Black Earth Farming shares the positive view of active and responsible ownership which is also expressed in the preparatory documents to the Swedish Companies Act. Given Black Earth Farming's line of business, stage of development and general environment, the elected Board represents a suitable composition with versatility and breadth in terms of the Directors' qualifications, experience and background

As of June 2011 Richard Warburton was appointed Chief Executive Officer. Thus Black Earth Farming will have two directors on the executive management team which deviates from the Code. The competition for personnel with relevant expertise within the Company's sector is intense, due to the small number of qualified individuals. The Board's view is that the Company, in its current stage of development, needs a person of Mr. Warburton's knowledge and experience of the sector.

Elected	Connection to the company	Audit committee	Operations committee	Board meeting attendance		Share holdings	Warrant holdings	Weighted average warrant strike price, USD	Call options holdings	Call options, strike price, SEK	Board fee, TEUR
2006	Main owner			15	94%	0	0		0		30
2006	Management		member	15	94%	7,000	500,000	3.99	59,492	26.1	0
2007	Independent	Chair		11	69%	0	100,000	7.5			60
2010	Independent		Chair	16	100%	20,000	0				60
2006	Main owner	member		13	81%	4,000	0		59,492	26.1	30
2010	Independent	member		15	94%	150,000	0		59,492	26.1	30
2010	Management		member	16	100%	19,250	0		59,492	26.1	30
		4	5	16							

The table below contains summary information on the current Directors' name, position, year of election to the Board, year of birth, citizenship and respective holding of SDRs/shares and warrants in the Company.

Board meetings

The Board may meet for the despatch of business, adjourn and otherwise regulate its proceedings as it thinks fit. The Board of Directors however thinks it suitable to meet at least twice a year in person and more frequently when necessary. Thereto, additional meetings are to be conducted by telephone if considered necessary. The CEO and General Manager has regular contact with the Chairman of the Board and several other members of the Board. Questions arising at any meeting shall be determined by a majority of votes. In the case of an equality of votes the Chairman of that meeting shall have a second or casting vote.

During the financial year ended 31 December 2011, sixteen Board meetings were held, whereof five were held with personal attendance, the rest were held by means of telephone conferencing.

Each Board meeting was governed by an approved agenda, supporting documentation for the agenda items as well as protocol from last meeting for follow up discussions.

At one time or another when deemed suitable by the Board, certain members of senior management, but not members of the Board, have been invited to attend meetings for in depth reviews and/or discussions of their respective business areas and/or projects. In connection with the Annual Audit of the Company's accounts the Auditors are always requested to attend a meeting to report their observations from the annual audit.

Work and Responsibilities

The Board of Directors adopts decisions on overall issues affecting the Black Earth Farming Group. However, the Board of Directors' primary duties shall be the organization of the Company and the establishment of overall goals and strategy relating to the Company's operations including:

- Decisions regarding focus of the business and adoption of Company policies;
- Supply of capital;
- Appointment and regular evaluation of the work of the CEO and Company management;
- Approval of the reporting instructions for the Company management;
- Ensuring that the Company's external communications are open, objective and appropriate for target audiences;
- Ensuring that there is an effective system for follow-up and control of the Company's operations and financial position vis-à-vis the established goals;
- Follow-up and monitoring that the operations are carried out within established limits in compliance with laws, regulations, stock exchange rules, and customary practice on the securities market.
- Keeping of minutes for written Board resolutions

- Determination of the appropriate minimum number of Board meetings as well as when and where they are to be held
- Appointment of Audit- and Operations Committee Chair and members as well as identification of their major tasks
- Establishing issues that always require a Board decision or an application to the Board, such as quarterly reports, major investments, changes of the legal structure, certain management appointments and financial guarantees/pledges.

During 2011 the Board has continuously addressed the strategic direction, the financial performance, and the methods to reach profitability and sustain growth longer term. No dissenting opinions in relation to decisions have been reported in the minutes during the year. However, the Board has at times tabled an issue until a later meeting when more supporting documentation or more in depth review of an issue could be produced. An annual evaluation of the board's work was performed in order to develop the board's working methods and efficiency.

Chairman of the Board of Directors

The Nomination committee suggests a chairman of the board to be elected by the AGM. The chairman shall not be employed by the Company. Per Brilioth was elected chairman of the Board at the AGM held on 25 May 2011. The Chairman shall lead the otherwise open Board discussion at each Board meeting. In the case of an equality of votes the Chairman shall have a second or casting vote.

Sub Committees of the Board

Pursuant to the Articles of Association, the Board may delegate any of its powers, authorities and discretions to any committee consisting of one or more Directors. In pursuit of an efficient and reliable corporate governance structure the Board in 2007 established two subcommittees, those being: the audit committee and the investment committee. As the company has evolved into a more operationally focused stage of development the operations committee was established in 2010 replacing the investment committee. Each committee keep minutes of their meetings which are made available to the board. Described below is also the Board's discharge of remuneration committee tasks.

Audit committee

The audit committee is charged with the responsibility of reviewing the system of internal control, management and reporting of financial risks and the audit process. When relevant and appropriate, the Chief Financial Officer and the Company's auditors are invited to attend the meetings, including a yearly planning stage meeting before the audit and after the audit at the reporting stage. Other Directors may also be invited to attend, although at least once a year the audit committee must meet the Company's external auditors without any management being present.

The tasks of the audit committee include consideration of matters relating to the appointment of external auditors for Black Earth Farming and its main subsidiaries, the independence of the Company's auditors as well as review of the audit fees. The audit committee shall also review the integrity of the Company's annual and interim reports, preliminary results' announcements and any other formal announcements relating to the Company's financial performance and situation.

The Chairman of the committee must have significant knowledge and experience in accounting in general, and the accounting principles applicable to the Company in particular.

The audit committee shall meet as regularly as deemed necessary by the Board, but it should be at least four times a year, in connection with the release of the Company's interim and full year financial statements.

Audit committee in 2011

The audit committee consists of three of the board members, namely Alex Gersh as Chairman, Henrik Persson and Magnus Unger. Former board member Paul Wojciechowski is a fourth specially invited member. In 2011, 4 meetings were held by the audit committee addressing the Company's financial reporting and progress.

Operations committee

The operations committee has been delegated by the Board of Directors to screen and evaluate key decisions regarding operational matters relating to the company. In particular the responsibilities of the Operational Committee include preparing decisions regarding; capital and operational expenditures outside of the board approved budget as well as review and approval of other key operational activities and hiring of high level positions within the operating company.

Operations committee in 2011

The operations committee consists of three of the board members, namely Poul Schroder as chairman, Richard Warburton and Sture Gustafsson. In 2011, 5 meetings were held by the operations committee together with senior management addressing the Company's operational progress.

Remuneration committee

The function of a specific remuneration committee, as per the Code's guidelines, is to prepare proposals on remuneration and other terms of employment for the executive management. The Board of Directors of Black Earth Farming has generally felt it more appropriate, that the entire Board performs the remuneration committee's tasks, however without the Board member(s) who are also part of the executive management. In some specific cases Per Brilioth, Henrik Persson and Alex Gersh have been given the type task of a remuneration committee, to prepare remuneration proposals. The guiding philosophy of the Board in determining compensation for executives is the need to provide a compensation package that is competitive and motivating, will attract and retain qualified executives, and encourage and motivate performance.

Group management

The CEO of Black Earth Farming is elected by, and works on behalf of the Board of Directors and shall implement the decisions made by the Board and prepare for decisions to be considered by the Board. The CEO shall also oversee compliance with the objectives, policies and strategic plans for the Company that the Board has established and ensure that these objectives, policies and strategic plans are submitted to the Board for updating or revision when necessary. The CEO is responsible for the operative management of the Company including establishing a qualified senior management team, usually in discussion with the Board of Directors for the most senior positions. The CEO shall ensure that the Company fulfils the obligations regarding disclosure of information, etc., or other regulations with which the Company is required to comply. The CEO is responsible for ensuring that obligations, agreements or other acts in law that the Company enters into or effects are correctly documented and do not conflict with any applicable binding statutes.

The individuals identified and presented below (and in the section "Board, Management and Auditors" in the formal annual report), as forming current senior Group management are individuals having important managerial roles and/or responsibility for certain important functions to the extent that their disclosure is required and it benefits the Company's shareholders to know of them and their merits in some detail. Other senior executives not identified

Name	Born	Nationality	Employed	Function	Share holdings	Warrant holdings	Weighted average warrant strike price, SEK
Richard Warburton	1966	British	2011	Chief Executive Officer	19,250	250,000	35.4
Fraser Scott	1961	British	2011	Chief Operating Officer	0	200,000	27.5
Alexander Betsky	1969	Canadian	2011	Chief Financial Officer	0	200,000	18.9
Sture Gustavsson	1959	Swedish	2006	Chief Agronomist	7,000	500,000	27.6
Richard Willows	1953	British	2011	Director of Sales & Marketing	0	100,000	27.5
Gustav Wetterling	1981	Swedish	2007	Director of Procurement	1,600	100,000	33.0
Erik Lystedt	1984	Swedish	2010	Director of Investor Relations	0	10,000	26.6

as belonging to this highest managerial category and not required to be disclosed, are not, for the benefit of shareholders since the competition in Russia for personnel with relevant expertise is intense.

For a detailed presentation of the senior management, see section “Board, Management and Auditors” in the formal annual report.

Compensation to the Board and management

Principles

Each Director currently receives an annual Board fee of EUR 30,000, other than the Chairman of the operations committee and the audit committee, who each receive EUR 60,000. In order to participate in the future growth of the Black Earth Farming each board member has been given the option to use the Board fee to acquire call options in the Company at a market determined price including a strike price of 20% premium to the average share price of the company. This deviates from the Code but the Company believes it is positive to align the Board's interests and incentives with that of the Company's progress and value creation for its shareholders. Sture Gustavsson was paid salaries as management and received no additional board fees. No other fees are paid for work within the committees of the Board. Remuneration for the senior executives consists of fixed salaries plus other benefits. In addition, certain Directors, senior executives and other key personnel within the Group are holders of warrants as part of the established incentive program. The guiding philosophy of the Board in determining compensation for executives is the need to provide a compensation package that is competitive and motivating, will attract and retain qualified executives, and encourage and motivate performance. As stated in Note 34 to the Consolidated Financial Statements, in 2011 total fixed salaries and bonuses to senior executives amounted to USD* 3,191 thousand, of which USD* 595 thousand to the company's CEO.

Incentive programme

As part of the Company's efforts to attract and retain qualified personnel, Black Earth Farming has created a warrant incentive program originally comprising of 2,059,000 warrants to subscribe for Shares. The number of warrants within the warrant instrument was thereafter increased from 2,059,000 to 10,000,000 warrants at the AGM of the Company held on 5 July 2007. Of these warrants, 3,643,000 have as of 31 December 2011 been issued for nil consideration to Directors and senior executives and other key personnel as set out in detail in Note 28 (d) to the Consolidated Financial Statements in the formal Annual Report. Each warrant entitles the holder to exchange one warrant for one Share. The warrants are regulated by an agreement dated 11 August 2005, as amended. The Company has undertaken to keep Shares available in order to facilitate the future exercise of such warrants.

All warrant holders have been allotted warrants of which proportionate part is vested annually during a number of

years set out in each warrant holders' warrant certificate. Warrants with a lower subscription price shall vest prior to warrants with a higher subscription price. Allocation of warrants is at the discretion of the Board. The subscription price will be affected by the time of allocation of the warrants.

The aggregate amount of all the warrants in the approved warrant program will constitute 7.43 percent of the total issued, fully diluted, share capital of the Company.

In the event that the warrant holders are no longer connected to the Company before the vesting date, warrants that are due to vest will be cancelled, see Note 28 (d) to the Consolidated Financial Statements in the formal Annual Report for record of cancelled warrants in 2011.

The warrants are transferable to a maximum of 30 warrant holders. The warrants are diluted on further issues of new Shares. If there is an alteration in the capital structure of the Company, warrant holders have rights to participate in such alteration to maintain their pro rata holding of warrant shares.

At full exercise of all approved 10,000,000 warrants, the Company's share capital will be increased by USD 100,000.

Termination of employment

In general, there is a mutual six months' notice period between the senior executives and the Company during which period the senior executives shall remain in their position and thereafter the senior executives are entitled to receive monthly salary during two additional months. However, the Company can agree with a senior executive that he or she should immediately leave his or her position with a compensation corresponding to three months salary. The Company has not set aside or accrued any amount to provide pension, retirement or similar benefits to any Directors or senior executives. Furthermore, in addition to the above, none of the Directors or senior executives has any service contracts with the Company providing for benefits upon termination of his or her respective appointment.

Auditors

At the AGM on 25 May 2011 Deloitte were re-appointed as the Company's auditors up until the next AGM, with Svante Forsberg with Deloitte as auditor in charge.

Svante Forsberg

Group Audit Partner

Mr. Forsberg is a Swedish citizen, born in 1952.

Among other entities Mr. Forsberg is the lead auditor of Alliance Oil, Anticimex, Connecta, Diligentia, Fabega, Skandia Liv and Swedbank. He has no engagements in entities related to the main owners of Black Earth Farming Ltd. or the CEO of Black Earth Farming Ltd.

Board of Directors' report on internal control

The Board is responsible for the Company's organisation and administration of the Company's activities, which includes internal control. Internal control in this context regards those measures taken by Black Earth Farming Limited's ("Black Earth Farming" or the "Company") board of directors, management and other personnel, to ensure that book-keeping and the Company's economic condition in general are controlled and reported upon in a reliable fashion and in compliance with relevant legislation, applicable accounting standards and other requirements related to the Company's market listing. Black Earth Farming has also appointed an Audit Committee, consisting of three members of the Board, charged with the special responsibility to review and discuss internal and external audit matters.

This report has been established in accordance with the Swedish Code of Corporate Governance, which govern internal control over the financial reporting. In addition this report has been prepared in accordance with the guidance provided by FAR, the institute for the accounting profession in Sweden, and the Confederation of Swedish Enterprise. This report does not constitute part of the formal Annual Report and has therefore not been reviewed by the Company's auditors. This report does not include a statement by the Board as to how well the internal control has functioned during the year.

The system of internal control is normally described in terms of five different areas that are a part of the internationally recognised framework which was introduced in 1992 by The Committee of Sponsoring Organizations in the Treadway Commission (COSO). These areas, described below, are control environment, risk assessment, control activities, information and communication and monitoring.

The management continuously monitors the Company's operations in accordance with the guidelines set out below. In order to enhance control and oversight of how the Company's routines and protocols were working and being adhered to by all levels of staff a thorough internal audit and review of the Company's operations was conducted during 2011 with targeted focus areas and implementation plans to address additional needs. The process will continue on an annual basis.

Control environment

The control environment, which forms the basis of internal control over financial reporting, to a large extent exists of the core values which the Board communicate and themselves act upon. Black Earth Farming's ambition is that values such as, precision, professionalism and integrity should permeate the organization. Another important part of the control environment is to make sure that such matters as the organisational structure, chain of command and authority

are well defined and clearly communicated. This is achieved through written instructions and formal routines for division of labour between the Board of Directors on the one hand, and management and other personnel on the other. The Board establishes the general guidelines for the Group's activities in internal policies, manuals and codes.

The Company's Chief Financial Officer is responsible for the control and reporting of the Company's consolidated economic situation to management and Board. The Company's Internal Auditor also prepares a separate report exclusively for the board, giving his view on the effectiveness of various policies and instructions.

Risk assessment

The Board of Directors of Black Earth Farming is responsible for the identification and management of significant risks for errors in the financial reporting. The risk assessment specifically focuses on risks for irregularities, unlawful benefit of external part at the Company's expense and risks of loss or embezzlement of assets.

It is the ambition of Black Earth Farming to minimize the risk of errors in the financial reporting by continuously identifying the safest and most effective reporting routines. The Board puts most effort into ensuring the reliability of those processes, which are deemed to hold the greatest risk for error, alternatively whose potential errors would have the most significant negative effect. Among other things this includes establishing clearly stated requirements for the classification and description of income statement and balance sheet items according to generally accepted accounting principles, pertinent legislation. The Company's Internal Auditor has together with the firm Audit Value established a yearly Audit Plan which entails close review of certain, by the Board, identified risk areas. The Internal Auditor together with experienced forensic auditors from Audit Value do a thorough analysis of the identified risk area with the aim of exposing possible risks in more detail and suggest recommendation on how to deal with them.

Control activities

This risk assessment leads to a number of control activities in place to verify compliance with set requirements and established routines. The purpose of the control activities is hence to prevent, detect and rectify any weaknesses and deviations in the financial reporting. Control activities also include permanent routines for the presentation and reporting of company accounts, for example monthly cash flow reports and budget follow ups as well as weekly status reports on land acquisition and registration. Special focus is also put on making sure that the requirements and routines for the accounting procedure, including con-

solidation of accounts and creation of interim and full year reports comply with pertinent legislation as well as generally accepted accounting principles and other requirements for publicly listed companies. Controls have also been carried out to ensure that the IT-/computer systems involved in the reporting process have a sufficiently high dependability for its task. The Company's Internal Auditor is furthermore always engaged in connection with very large procurement transactions, ensuring proper procedure in choice of supplier etc.

Information and communication

The Company has established fixed routines and invested in reliable technical applications to guarantee a fast and reliable way of sharing information throughout the organisation. Internal policies and general guidelines for financial reporting are communicated between the Board of Directors, management and other personnel through regular meeting and e-mails.

The Company is committed to provide accurate, reliable and timely information, and to abide to the regulations applicable to a company listed on Nasdaq OMX Stockholm. To ensure the quality of the external reporting, which is the extension of the internal, the Board of the Company has adopted an information policy, which regulates the Company's giving of internal and external information. The policy applies to all parts of the organisation, to all countries and at all times. Information shall be provided using direct as well as indirect means. The means communications can be website postings, press releases, interim and annual reports, prospectuses, public conference calls, interviews to specialised and general media and investor analysts, as well as participation in public meetings. In order to ensure reliability and consistency of information provided, only corporate staff designated as spokespersons for Black Earth Farming are authorised to speak to the media on behalf of the Company.

All reports and press releases are published on the Company's website www.blackearthfarming.com immediately after proper publication through news distributor, currently NASDAQ OMX.

Black Earth Farming is fully committed to communicate in a transparent way; it will not restrict public disclosure of information, except where the information is of a commercially sensitive or confidential nature.

Monitoring

The Company's financial situation and strategy are discussed at Board meetings, as well as any weaknesses in the activities and financial reporting since the last Board meeting. The Audit Committee has a particular responsibility to review and bring any weaknesses in internal control procedures for financial reporting to the Board of Directors' attention. Potential reported shortcomings are followed up via management and the Audit Committee. Monthly management reports are prepared and distributed to the Board with updates on operations and financials. The Company prepares interim reports four times annually which are reviewed by the Board. A more thorough review of the Company's accounts is also performed at least once a year in addition to the comprehensive audit in connection with the Annual Report.

Sustainability

There is no doubt a large challenge to feed the world's increasing population in a sustainable way that does not deplete the earth of its resources for the future. Sustainable agriculture integrates three main goals; environmental conservation, social benefits for workers and local communities together with economic profitability.

Black Earth Farming shares the principles that present needs must be met without compromising the ability to meet the requirements of future generations. The company's ability to generate sufficient shareholder returns are dependent on them. This includes consideration of social responsibilities such as working and living conditions of employees and local rural communities as well as consumer health and safety both at present and in the future. It also incorporates maintaining and enhancing land and natural resources for the long term by optimal management of inputs, minimizing tillage and employing a long term crop rotation system to minimize erosion and conserve soil and water resources. Lastly it incorporates good and efficient overall management with sound financial planning and efficient risk management practices.

BEF's Social Responsibility

Black Earth Farming's focus is on bringing fallow arable land back into production. The company effectively taps currently unused sources for food production, which is a necessity to balance the food supply and demand picture for the world's increasing population.

Social responsibility entails caring for external stakeholders as well as internal. Black Earth Farming strives to conduct business in a way that not only safeguards employees, customers, community neighborhoods but helps develop them as well. Our focus on the redevelopment of fallow land creates new job opportunities with stable and relatively high means of income, in communities where this has been and in many cases still is a luxury. We care for the safety of our employees, and conduct regular training sessions and seminars on for example how to use the equipment correctly, which is the safest way. We contribute to local communities both through our own economic development which helps bring commerce and tax revenues to the local administrations, but also by financial support to many local activities and social projects.

BEF's Environmental Responsibility

Preserving the planet's limited resources is a vital concern, and is the responsibility of all people but we as a company have an extra responsibility and capacity to motivate and stimulate environmental thinking in respect to our activities.

We must conserve forests and other natural ecosystems, while at the same time feed an increasing population. To do this we need to utilize and increase productivity on what is already arable land. This reduces the pressure to clear forested land in other places to meet food demand, and so helps preserve the planet's green lungs. Many different measures, such as judicious and greater use of mineral fertilizers and chemicals will help increase crop yields sustainably, and use existing agricultural land more efficiently. Without the addition of nutrients and minerals the soil would with time also be depleted of its natural content of these substances.

Black Earth Farming is committed to cultivating its land in an environmentally responsible way that ensures long term health of the soil and minimizes the impact on surrounding ecosystems. To a large extent this comes from application of fertilizer and other necessary chemicals at optimum rates and timings, where continuous staff training and proper management is vital. Application of inputs at optimum rates also maximizes the economic benefit for the Company. A multi-year crop rotation mix is also chosen for long term sustainability of the soil, not short term profits. Furthermore, the Company puts great emphasis on correct handling and storage of pesticides, fertilizer and other chemical compounds.

BEF's Economic Responsibility

The longevity and success of Black Earth Farming will support several stakeholders economically. This includes several aspects such as employee salaries, commercial relationships with suppliers and customers, tax revenues to local districts, and creating value for our shareholders. To a large extent the economic sustainability of our business is a product of mutually beneficial relationships with our various stakeholders and we believe in growing and prospering together with them. Good and beneficial relationships are built by a high level of professionalism, integrity and business ethics in the way we operate and interact. Good corporate governance and communication is an important part of fostering a good relationship with our shareholders and building trust from the market in the Company and its management.

Terms and Definitions

Units

1 hectare (ha) = 2.47105 acres

1 hectare (ha) = 10,000 square meters

1 metric ton = 2,204.622 pounds (lb)

1 metric ton = 10 centners

1 metric ton of wheat = 36.74 bushels of wheat

1 metric ton of corn = 39.37 bushels of corn

“AGRO-Invest Group”

The Company’s subsidiary OOO Management Company AGRO-Invest and its subsidiaries, including OOO Management Company AGRO-Invest-Regions.

“Black Earth”

A soil type which contains a very high percentage of organic matter in the form of humus, rich in phosphorus.

“Black Earth Farming” or the “Company”

Black Earth Farming Limited, a company incorporated in Jersey, Channel Islands, under the 1991 Law with company registration number 89973, including its subsidiaries, unless otherwise is apparent by the surrounding context.

“Black Earth Region”

A territory located in parts of Russia, Ukraine and Kazakhstan endowed with Black Earth.

“Cadastre”

A Russian state register of real property including details of the area owned, the owners and the value of the land.

“CBOT”

Chicago Board of Trade

“CIS”

Commonwealth of Independent States which consists of the former republics of the Soviet Union, excluding the Baltic States. The following countries are included Armenia, Azerbaijan, Belarus, Georgia, Kazakhstan, Kyrgyzstan, Moldova, Russia, Tajikistan, Turkmenistan (associated member), Ukraine and Uzbekistan.

“Crop year”

A crop year in Europe typically begins in late summer with the seeding of winter crops and ends approximately one and a half years later depending on when the crops is being harvested and sold.

“Debt/Equity Ratio”

Total amount of long term borrowings divided by total shareholders’ equity.

“EBITDA”

EBITDA represents net income (loss) before interest expense, interest income, income tax expense (benefit), depreciation of property and equipment, amortization of intangible assets, and extraordinary or non-recurring income and expenses.

“Earnings per Share”

Net profit attributable to shareholders holding ordinary shares divided by the number of shares issued.

“Equity/Assets Ratio”

Total shareholders’ equity divided by total assets.

“EU-27”

The following EU membership countries: Austria, Belgium, Czech Republic, Cyprus, Denmark, Estonia, Finland, France, Germany,

Greece, Hungary, Ireland, Italy, Latvia, Lithuania, Luxembourg, Malta, Netherlands, Poland, Portugal, Slovakia, Slovenia, Spain, Sweden, the United Kingdom, Bulgaria and Romania.

“Euroclear”

Euroclear Sweden AB (formerly VPC AB), the Swedish central securities depository and clearing house with address Regeringsgatan 65, Box 7822, SE-103 97, Stockholm, Sweden.

“Fallow land”

Land which is not being cultivated.

“FOB”

Free On Board – an export pricing term where the seller covers all costs up to and including the loading of goods aboard a vessel, but not following freight/shipping costs.

“Grains”

Generic name for wheat, barley, oats, rye, rye-wheat, durra millet, maize and rice

“Grain elevator”

Building or complex of buildings for drying, cleaning, storage and shipment of grain.

“IGC”

International Grains Council

“IKAR”

The Russian Institute for Agricultural Market Studies.

“Land in Ownership”

Land where the Company has obtained the, in the central Cadastre, registered rights of ownership to the land.

“Land under control”

Refers to all land under the Company’s control, including fully registered ownership, long term leased land and acquired cropping rights (Pais) in the process of being registered as ownership rights.

“Oblast”

An administrative region of Russia.

“Oilseeds”

A wide variety of seeds which are grown as a source of oils, e.g. cottonseed, sesame, rape seed, sunflower and soybean. After extraction of the oil the residue is a valuable source of protein, especially for animal feedstuffs.

“OOO”

“Closed joint stock company”, the Russian equivalence to a limited liability company.

“Operating Margin”

Operating income divided by net sales.

“Pai”

A share in jointly-owned land received by a farm worker (in the Company’s transactions often comprising approximately 2 to 17 hectares of undefined land).

“SDR”

The Swedish depository receipts issued representing the Shares according to the general terms and conditions for depository receipts in Black Earth Farming.

“USDA”

United States Department of Agriculture





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