

ANNUAL REPORT 2012

The background of the entire page is a dense field of bright yellow sunflowers with dark brown centers, growing on green foliage. Overlaid on this background is a large, stylized white circular logo. The logo consists of several concentric, curved lines that form a circular shape, with some lines having small gaps or notches, giving it a modern, architectural feel.

**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 15 May 2013 at Näringslivets Hus, Storgatan 19 in Stockholm, Sweden.

Participation

Holders of Swedish Depository Receipts (“SDRs”) wishing to attend the Annual General Meeting shall be recorded in the register of shareholders maintained by Euroclear (former VPC AB) on Wednesday 8 May 2013, and must notify the Company of their intention to attend the Meeting no later than 13.00 CET on 8 May 2013. The holder of the Swedish Depository Receipts shall state his name, personal or company identification number, address as well as telephone number.

Notice of participation

Holders of Swedish Depository 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 Depository 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 Depository Receipts that want to obtain such registration must contact the nominee regarding this well in advance of 8 May. 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 Depository Receipts intends to be represented by proxy, the name of the proxy holder shall be stated. For holders of Swedish Depository 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 2013

- 2013 Annual General Meeting: 15 May
- 1Q Interim Report, 1 January–31 March: 24 May
- 2Q Interim Report, 1 January–30 June: 16 August
- 3Q Interim Report, 1 January–30 September: 15 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



Land Ownership



Productivity Enhancement



Best Practice Farming Operations

- Extensive soil restoration process undertaken to transform long term fallow land into productive crop land
- Over 250,000 hectares brought out of fallow and currently in cultivation



• 250,000 Hectares of World Class Farm Land in Full Ownership

- Total land bank of 308,000 hectares with 81% in full ownership
- Non depreciating asset recorded at acquisition cost of USD* 59.2 million in statement of financial position as of Dec 31, 2012

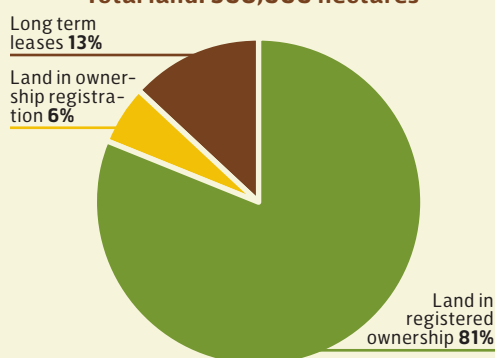
• Operating in Russia's Central "Black Earth" Region

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

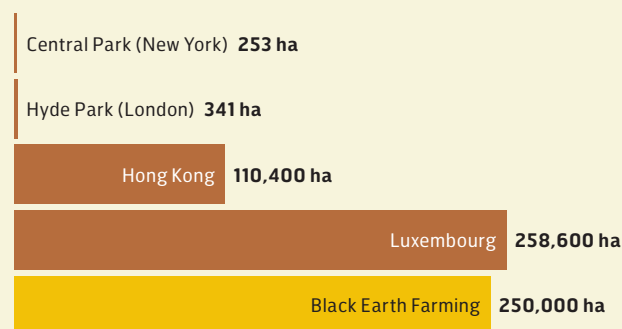
BEF: ONE OF THE LARGEST OWNERS OF PRIME RUSSIAN FARM LAND

D1: BEF 2012 Land holdings

Total land: 308,000 hectares

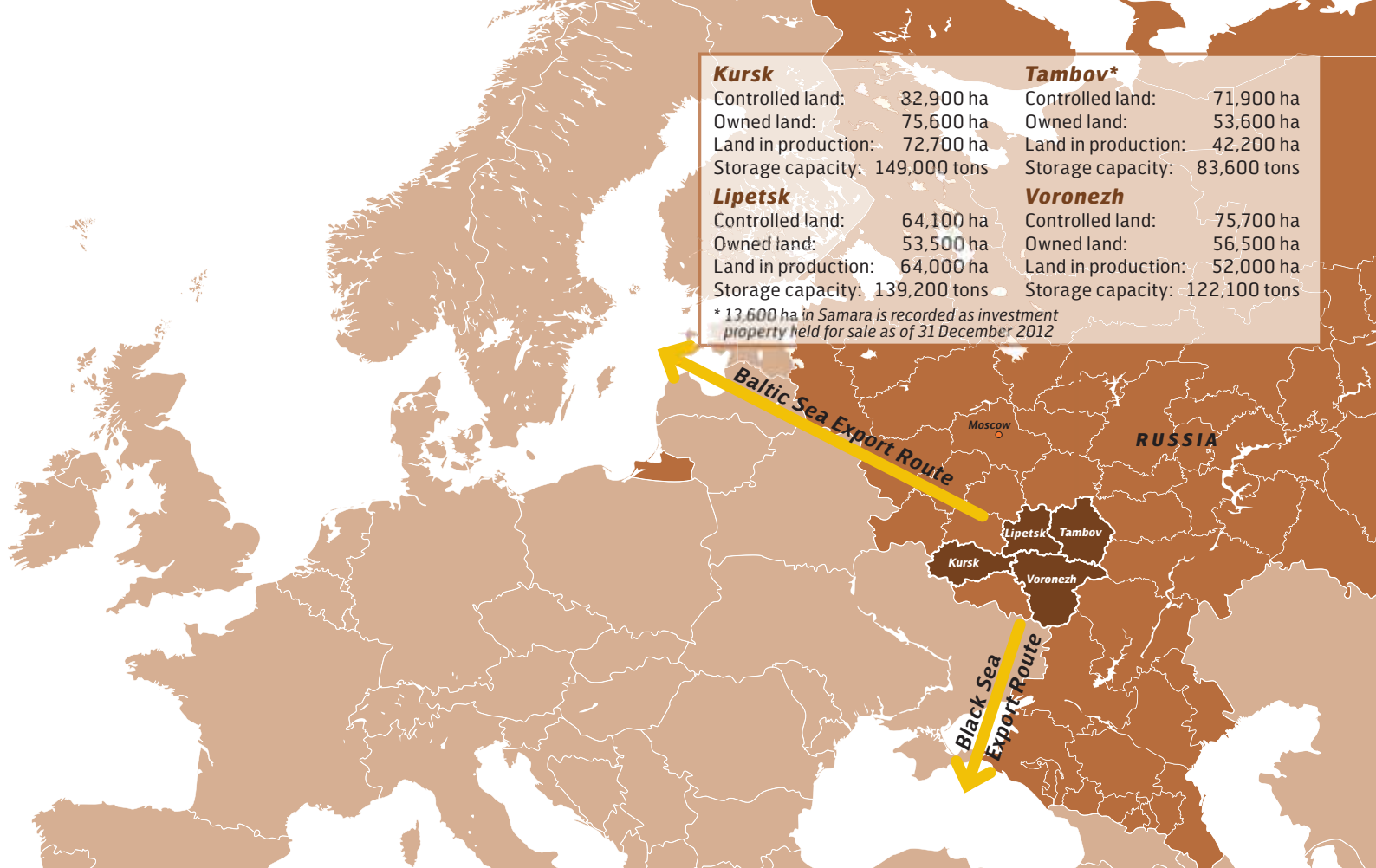


Comparison of Black Earth Farming's fully owned acreage with Central Park (New York), Hyde Park (London), Hong Kong and Luxembourg

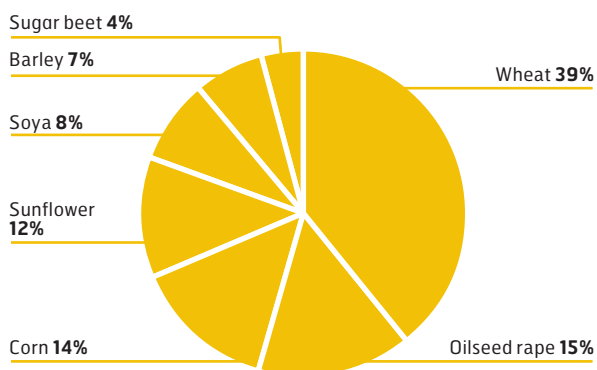


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One of the Largest Russian Land Owners...



D2: 2012 Revenue by Crop



• Major Producer of Grains and Oilseeds

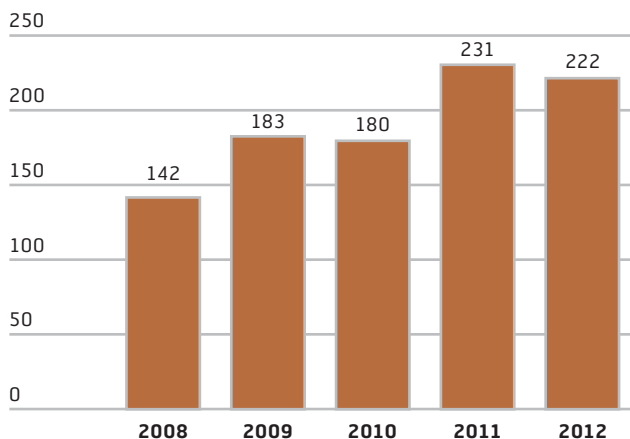
– 230,000 hectares in production

• Significant Investments into Machinery Fleet and Storage Infrastructure Undertaken

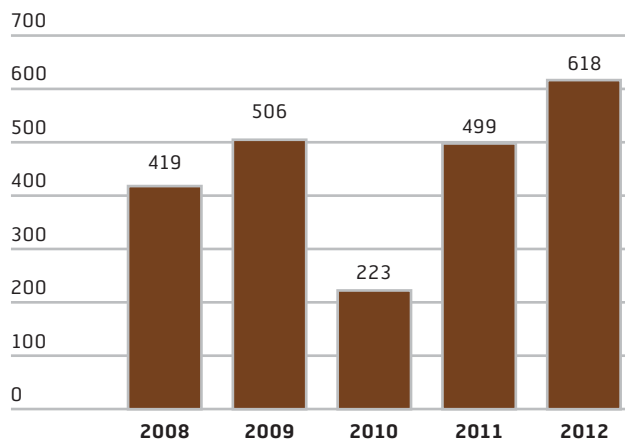
– Large state of the art machinery fleet
– 500,000 tons of storage capacity



D3: Harvest Area, thousand hectares



D4: Commercial Harvest, thousand tons



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...Focused on Raising Productivity and Profitability

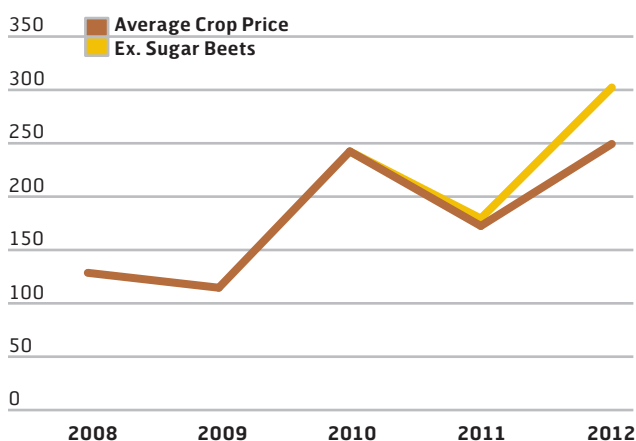
2012 in Brief



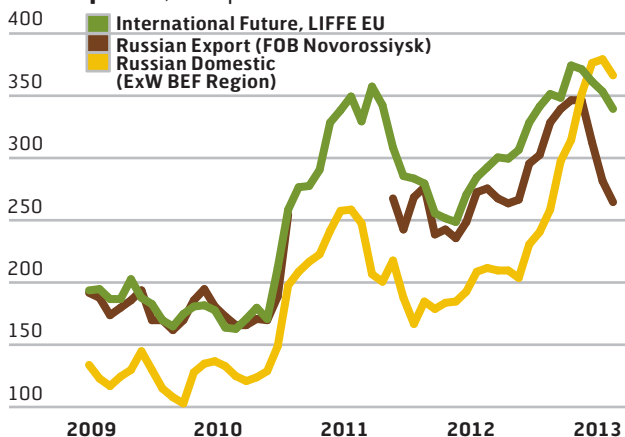
• Record Highs for Agricultural Commodity Prices

- Global and Russian production shortfalls send prices soaring
- BEF's average 2012 crop price increased 68% y-o-y on a like-for-like basis

D1: Average BEF Crop Price (Harvest Year), USD*/ton



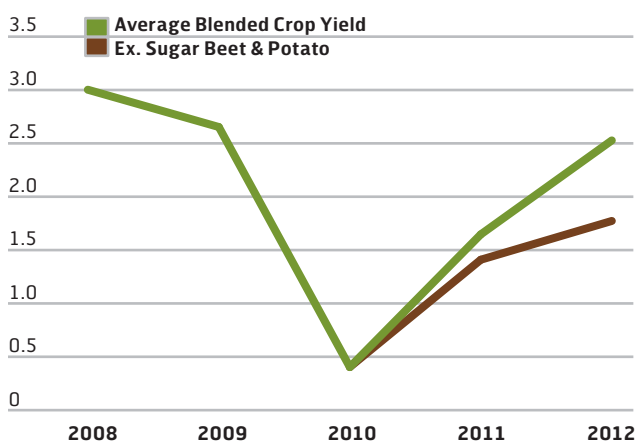
D2: January 2009–March 2013 Wheat Price Development, USD per ton



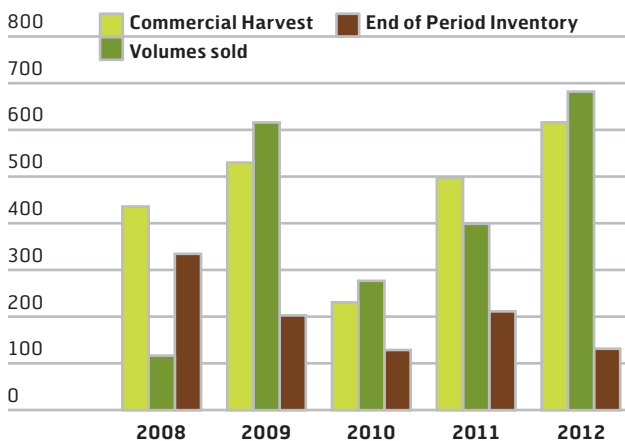
• Internal improvements to Crop Yields, Logistics and Sales and Marketing

- Blended average crop yield excluding sugar beets increased 13% year-on-year
- Record harvest and sales volumes of 630 and 684 thousand tons respectively
- Crop quality preserved and sales realized at favorable prices

D3: Historic Crop Yield Development, tons per hectare



D4: 2008–2012 Production, Sales and Inventory, thousand tons



* The functional and presentation currency for Black Earth Farming is RUR. For the convenience of the users of this report USD amounts are also presented – see note 2 (d).



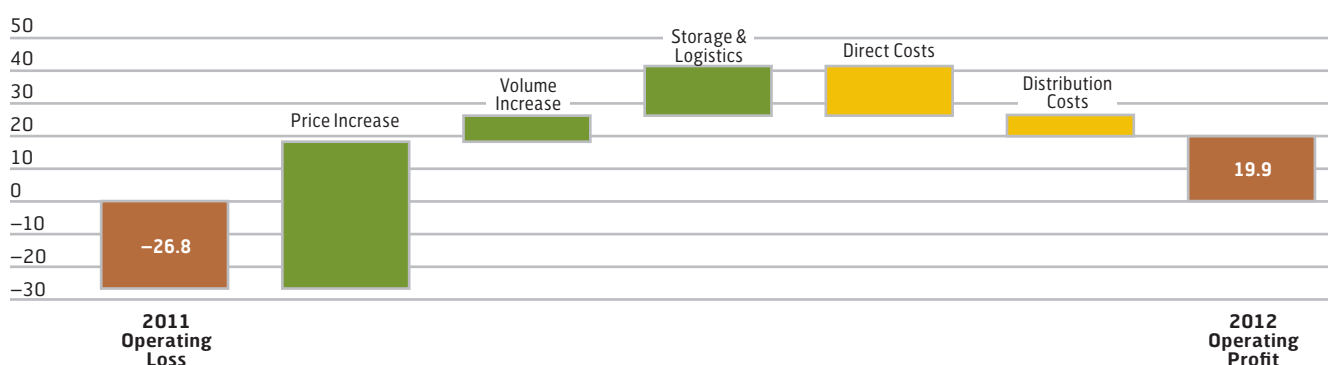
- **First Full Year Net Profit of USD* 7.2 million for 2012**

- Operating profit of USD* 19.9 million vs. loss of USD* –26.8 million
- Improved result driven by higher prices as well as operational improvements

T1: BEF Income Statement in Brief

USD* million	2008	2009	2010	2011	2012
Total Revenue	28	75	63	82	229
Gross Result	10	–1	9	3	55
EBITDA	–19	–26	–11	–13	35
Operating Result	–26	–38	–27	–27	20
Net Result	–24	–44	–38	–44	7

D5: 2012 Operating Result Development, USD* million



- **Strategic Cooperation Agreement Signed with PepsiCo in October 2012**

- BEF to supply potatoes and sunflowers for Lay's crisps as well as beet for sugar in various products
- Potential for BEF to grow with good returns on capital at lower risk
- Domestic price risk management with high quality counterparty

- **Rights Issue of SEK 530 million Successfully Completed in December 2012**

- Proceeds to fund PepsiCo investments and working capital to complete operational turnaround
- Oversubscribed and well received by the market

- **Proposal of No Dividend for 2012**

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CEO Statement



Good Progress in 2012 but Higher Ambitions Going Forward

2012 was a milestone in several aspects for Black Earth Farming. The company reported its first full year net profit of USD* 7.2 million while we also initiated the next strategic phase by signing a strategic cooperation agreement with PepsiCo. The subsequent SEK 530 million rights issue was successfully completed giving us a much stronger financial position to complete the operational turnaround and increase supplies to PepsiCo over the coming years. Our focus remains on the strategy already laid out to improve operating performance in the core business by raising crop yields and lowering the cost per tonne. Although we made good progress both operationally and financially in 2012 we clearly have higher ambitions in order to lift returns on capital and unlock the value of BEF's high quality asset base.

2012 Financial Result

The major improvement in our 2012 financial result is top line driven with total revenue and gains of USD* 229 million up 179% from USD* 82 million in 2011 due to higher volumes and higher crop prices. Sales revenue is higher having sold 684 thousand tons of crops, 71% more than in 2011, due to a higher carry-in inventory, a changed crop mix and better crop yields resulting in higher harvested volumes in 2012 of which 78% had been sold by year end. The blended average market price of USD* 253 per ton is 36% higher than USD* 186 per ton for 2011 crop (on a like for like basis excluding sugar beets, USD* 303 per ton is up 68% year-on-year) which contributed to the higher revaluation of biological assets and a 2012 gross profit of USD* 55.3 million versus USD* 2.8 million in 2011. A key difference is that we managed to realize the high prices in 2012 as 2011 was negatively affected by poor quality and subsequent price discounts. The improve-

T1: BEF Income Statement in Brief

USD* million	2008	2009	2010	2011	2012
Total Revenue	28	75	63	82	229
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Net Result	-24	-44	-38	-44	7

ment is due to strong performance in sales & marketing but also preservation of crop quality due to much better management of logistics, drying and storage. The revenue increase has to some extent been mitigated by cost increases, particularly certain direct costs of key inputs as well as changes to the cropping mix. Distribution costs are also up USD* 6.5 million from 2011 mainly due to higher sales volumes and the resumption of our internal export program, shipping crops to end customers in Europe. Overhead and personnel costs are also up somewhat as we have strengthened management teams. This has been crucial to improve our operating performance but improved cost control and reduced overheads is one of the focus areas for 2013. All in all a 2012 operating profit of USD* 19.9 million is good progress compared to the loss of USD* -26.8 million in 2011.

2012 vs. 2011 – Key Drivers

Record High Crop Prices

The main factor affecting crop markets in 2012 was the drought in the US Midwest while parts of Russia, Ukraine and Kazakhstan also had difficult weather conditions. This resulted in a substantial rise in international prices for grains and oilseeds and with no imposed export restrictions, record highs for Russian domestic prices. While seasonal weather

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factors are a key driver behind the supply shortfall causing the 2012 price spikes, global stock-to-use levels for all major grain and oilseed crops have steadily declined during the past 4–5 years despite record harvests. Although we have lower price expectations for the 2013 harvest the longer term outlook for agricultural commodity prices remains very favourable. The effect of higher prices on 2012 gross profitability was an approximate USD*45 million improvement versus 2011.

Improved Crop Yields

We also made some tangible improvements for the 2012 crop. Whilst winter wheat was a disappointment, yields for spring wheat, corn, sunflower and soya crops are among the best ever achieved. Winter wheat was badly affected by a late spring, immediately followed by a sharp increase in temperatures and consecutive weeks of dry weather in May. Conditions were more favorable from June onwards and this together with improved quality of operations benefited later 2012 spring crop yields which all came in above historic averages and 20% better than 2011. The improved volumes of comparable crops, excluding an increased area of higher yielding sugar beets, is an approximate USD* 8 million improvement versus 2011.

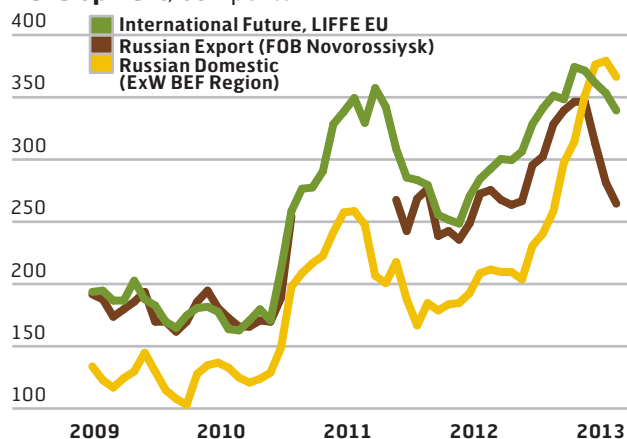
Storage & Logistics

The focus on improving logistics, drying and storage meant that unlike 2011 we got all dryers working and elevators working much more efficiently. Harvest logistics was managed centrally and real time information regarding our 20 harvesting teams, which of our 40 storage sites crop was routed through and exactly what quantity, quality, moisture and admixture levels gave us the control we required. This ensured that we could realize prices at market levels and avoid the large price discounts of on average 15–20% due to poor quality. This is an improvement of approximately USD* 15 million compared to 2011.

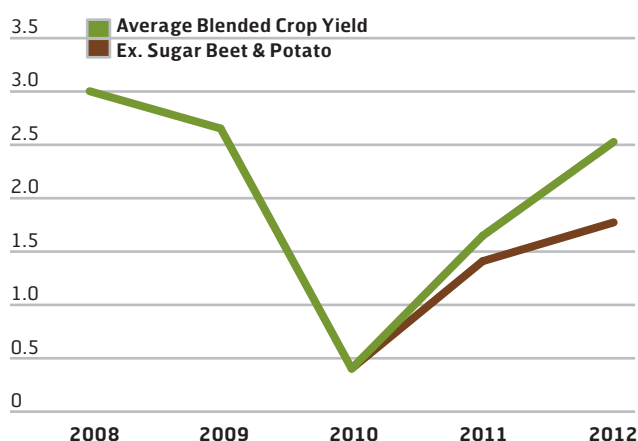
Costs

Cost of production for the 2012 crop were up by around USD* 15 million year-on-year. A higher share of more intensive crops such as corn and sugar beet which cost more to produce per hectare but in turn yield higher volumes, revenues and ultimately profits is a key factor. However, like for like direct cost increases from a combination of input price inflation, some increased application rates and much higher prices for key inputs such as fertilizer, seeds, sprays and fuel as well as the corrective measures being undertaken to raise crop yield potential have all contributed. The five corrective initiatives to improve crop yields, correcting soil pH and soil compaction, improving weed control, applying more of certain fertilizers and improving internal seed management techniques will continue, but major areas have already been covered. We have now limed and subsoiled approximately 50 and 110 thousand hectares respectively. These initiatives will have had a relatively minor impact on 2012 crop yields but we expect steady yield improvements in future years.

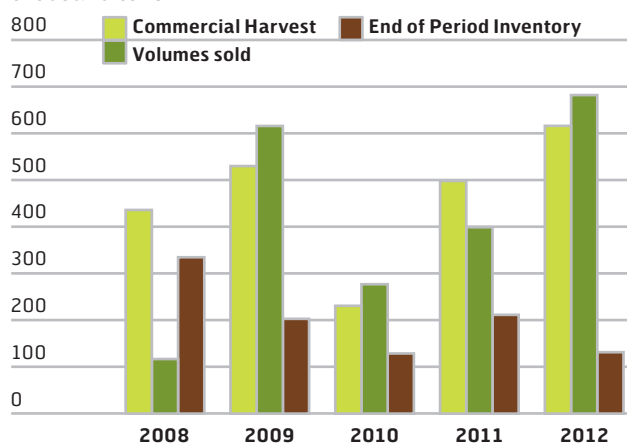
D1: January 2009– March 2013 Wheat Price Development, USD per ton



D2: Historic Crop Yield Development, tons per hectare



D3: 2008–2012 Production, Sales and Inventory, thousand tons



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PepsiCo Agreement & Rights Issue

The PepsiCo agreement signed in October 2012 is a major opportunity and provides a first step in the next strategic phase for the company. The collaboration should have a major positive impact on the business as it offers the potential to fix prices in advance for a significant quantity of its production while also diversifying into competitively advantaged higher margin irrigated crops. We are concentrating hard on ensuring that we deliver in all aspects for our customer going forward. The initial 30 hectare test field with potatoes in 2012 was successful in producing good volumes and quality. We will increase the area 2013 carefully to about 200 hectares before the major planned ramp up will commence in 2014. In December 2012 we successfully completed the USD* 80 million rights issue launched to finance the investment and working capital needs required for the PepsiCo deal as well as completing the operational turnaround. The issue was well received and we are grateful for the continued patience and excellent support from our shareholders.

2013 Plans

For 2013 we need to build and consolidate upon the improvements seen in 2012 and raising crop yields remains the key focus area. We are far from satisfied with the improvements to date and intend to step up our efforts by significantly increasing training at all levels to improve technical decision making and operator performance. Our internal R&D is yielding key data to ensure our crop management is increasingly driven by statistically significant well analyzed trials information and this will be expanded upon for 2013. High quality relevant management information for the senior and midlevel management team is also a priority area.

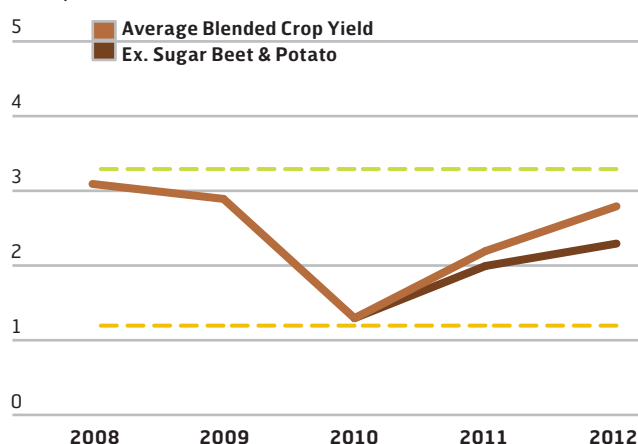
Our land bank is of high overall quality but we want to improve and consolidate further whilst the land market remains relatively active in order to focus on the areas with the highest potential. We divested 9.5 thousand hectares of low quality land in 2012 and have also reclassified our land in Samara as investment property to be sold. This contributed approximately USD* 3 million to the 2012 profit, all based upon executed or pending sales contracts. 80% of the land bank is in registered ownership and all land that is not leased or classified as investment property, 258 thousand hectares, is held at acquisition cost in the balance sheet. The market for Russian farm land remains fluid and prices have risen substantially since acquisition evidenced by larger farm land transactions in neighbouring regions.

Conclusion

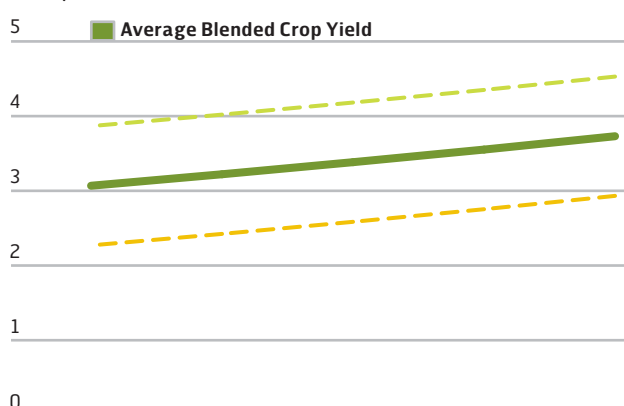
Overall an improved performance in 2012 compared to previous years. Whilst we acknowledge the substantial contribution of better prices to it, we also made some of the necessary operational improvements to allow us to capitalize upon them. Significantly we now have a more settled and increasingly experienced management team. We cannot bank on the current high prices for future years and are very realistic about what we have to achieve in order to deliver profits in lower price years. Whilst we have made some good progress there is considerable scope still to improve in almost all aspects in order to generate much higher returns on capital that will be required for the business to reach its true potential and value. Whilst achieving profitability is an important milestone for the company there remains much to do and we are far from satisfied with the achievements so far.

Richard Warburton
CEO and President
Black Earth Farming Ltd
12 April 2013

D4: Historic Crop Yields Development,
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. The Company holds ownership of an extensive land bank of first class soil in several Russian regions and is a major producer of grains and oilseeds. BEF’s focus is on increasing the productivity of its current asset base to become the best-in-class agro industrial company in terms of costs and operating efficiency. As of 31 Dec 2012 BEF has 308,000 hectares under control of which 81% is fully owned with over 230,000 hectares in production.

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.

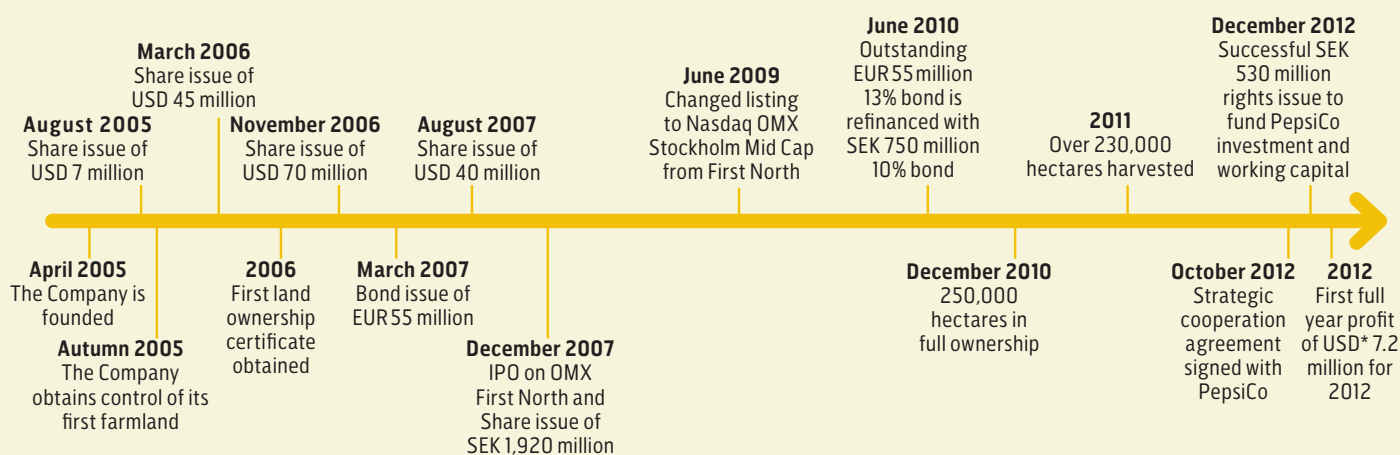
The near term focus is not on significant expansion of the land portfolio, but on finalizing the ownership registration process and improving productivity of the current

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 put into production 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 included several steps such as disc tilling and field levelling. When the fallow had been broken and the fields restored to cropping condition, the focus shifted to raising crop yields and implementing operational improvements. Since inception over 260 thousand hectares have been taken out of long term fallow and are in cultivation. The continental inland climate in the central Black Earth Region of Russia where the company operates has a crop growing season of approximately 120-170 days which can be compared to 250 days in the UK which has a maritime climate and is in proximity to the gulf stream. This allows for one harvest each year starting in July through October-November 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



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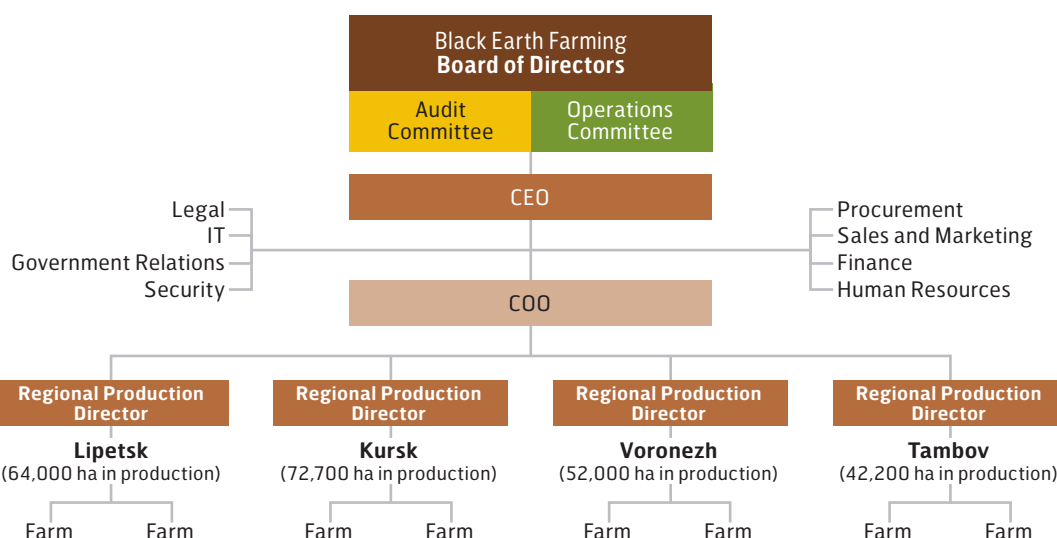
Organisation

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 2,067 employees as at 31 December 2012 compared with 1,829 in 2011.

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 established a significant presence 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 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 significant milestone as it confirmed that the land acquisition process was consistent with Russian legislation and worked in practice. The Company 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. As of 31 December 2012 Black Earth Farming controlled 308,000 hectares of land, corresponding to an area about the size of Luxembourg, with 250,000 hectares in ownership and 39,500 hectares in longer term leases.

The Company raised initial funding from the family backed Swedish investment companies Vostok Nafta and Kinnevik who remain major 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 Depositary 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 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. In October 2012 the Company signed a 3 year strategic cooperation agreement with PepsiCo in Russia to supply potatoes and sunflowers for Lay’s crisps as well as sugar for other various PepsiCo products. To fund the investments needed to expand potato and sugar beet production under the PepsiCo agreement a SEK 530 million rights issue was successfully completed in December 2012.





Land Ownership



Productivity Enhancement



Best Practice Farming Operations

BUSINESS CONCEPT, VISION, STRATEGY

Business concept

Black Earth Farming's business concept is to acquire ownership, raise productivity and farm agricultural assets in Russia, primarily in the Black Earth Region.

Vision

Black Earth Farming seeks to create shareholder value by developing its assets to generate robust profitability and returns on capital, with the long term vision to develop into a leading vertically integrated and diversified agricultural company.

Strategy

BEF's initial strategy has been on acquiring ownership of a vast land area as well as investing in internal machinery and storage capacity for production of grains and oilseeds. With a strong asset base secured the focus is on lifting the operating performance and productivity as well as reducing revenue risk, improving logistics and optimizing costs. A larger share of higher value crops is targeted in order to improve returns on capital, grow revenues and reduce volatility. This includes;

Land Ownership: Free hold ownership rights to agricultural land has been secured at a relatively low cost per hectare by international comparisons and relative to the inherent production potential. The process of ownership registration in Russia has been complicated and lengthy but the near term focus is on finalizing the process and consolidating land blocks in areas with the highest production potential.

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 internal trials or other sources, as well as the training and education of staff to ensure proper implementation.

Revenue Risk Management: The farming business has inherent weather induced volatility relating to crop volumes and prices which have a substantial effect on revenue and profitability. BEF aims to manage these risks to the furthest extent possible. Actions include improving crop management and diversifying production towards higher value crops grown on contract, as well as insuring against extreme weather events. Physical forward sales and long term pricing via domestic and international customer relationships as well as financial instruments is sought to manage price volatility.

Optimal Cost Structure: As a commodity producer and price taker focus is on obtaining the lowest unit cost possible in order to be price competitive. This involves setting the optimum direct cost per hectare in terms of input applications versus expected volumes to reduce the unit cost of production and maximize profitability per hectare.

Economies of scale: To create logistical efficiencies and other synergies the Company has formed and consolidated several production clusters within its controlled land bank, each being governed by professional management with support from the central organization. The cluster model optimizes the utilisation of resources as land areas are consolidated around local storage facilities and machinery hubs. The central organization coordinates investments and purchases of seed, fertilizers and other inputs to benefit from scale discounts.



BEF's Business Model



Land Ownership

Land Ownership

A key part of the initial strategy has been to secure ownership rights to the critical asset; high quality farmland. Black Earth Farming holds 250 thousand hectares of land in full ownership, 81% of the total controlled land bank of 308 thousand hectares, at acquisition cost of USD* 59.2 million in total. The land investment per hectare is low by international standards and compared 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 yields as well as optimizing and consolidating the land bank.



Input/Machinery Procurement

Input/Machinery Procurement

Each production cluster is supported by 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 contract 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.

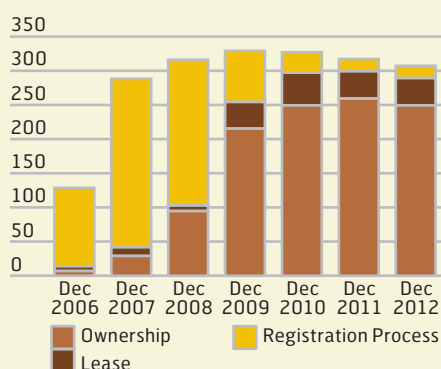


Field Works and Harvesting

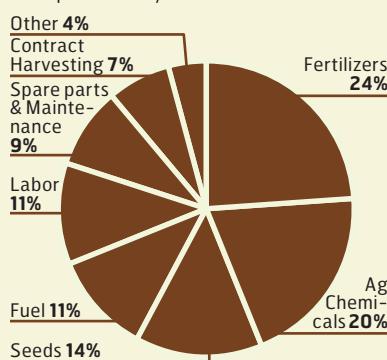
Field Works and Harvesting

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 predominately 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 with short seasonal timeframes for when cultivation, planting, input application and harvesting need to be executed over vast areas.

D1: 2007–2012 Land Development, thousand hectares



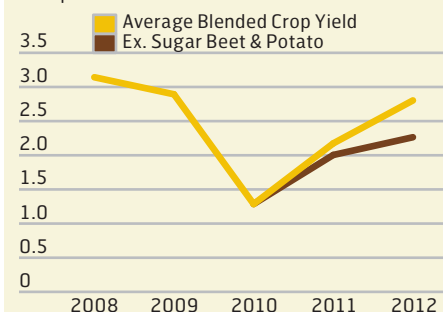
D2: Production Cost Breakdown, 2012 production year



D3: Crop Area, thousand hectares



D4: Historic Crop Yield Development, 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 direct cost components
- Capital costs (depreciation) as the Company owns the entire machinery fleet and storage infrastructure

- 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 functional and presentation currency for Black Earth Farming is RUR. For the convenience of the users of this report USD amounts are also presented – see note 2 (d).



Crop Handling and Storage Logistics

Crop Handling and Storage Logistics

After crops are harvested, they are transported to storage and drying facilities such as elevators or on farm storage sites. 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 are influenced by seasonality and Russian domestic prices tend to be at their lowest during the peak harvest period as farmers without access to storage facilities must sell their grain immediately, thereby substantially increasing supply.



Sales and Marketing

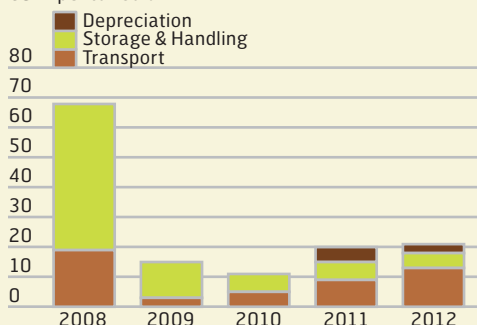
Sales and Marketing

Black Earth Farming sells its products both domestically in Russia and via direct exports to international customers. The list of customers varies from large international companies with local production in Russia e.g. PepsiCo and large breweries to oil crushers, flour mills, livestock producers as well as large international grain traders. In the past, 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, the price per ton received has improved. Contract terms including loading, transport and delivery to buyer can be included in the price as well as providing access to export markets which generally command a net price premium. 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 futures market due to the low trust among counterparties. It also enables consolidation of larger volumes of crops with specific qualities enabling participation in larger and better priced contracts.

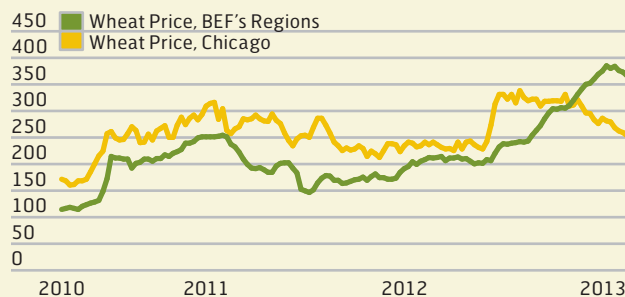
Processing
(Oils, Flour
etc.)

Livestock
(Animal
fodder)

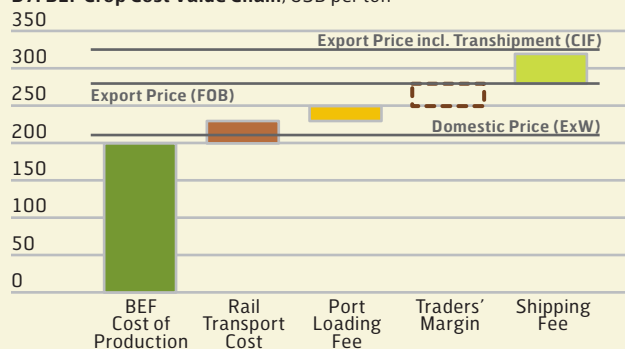
D5: Distribution Expenses Breakdown,
USD* per ton sold



D6: Wheat Price Development May 2010–March 2013, USD per ton



D7: BEF Crop Cost Value Chain, USD per ton



- Price (flexible timing of sales)
- Price (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 all storage facilities

- Distribution expenses (transport)

Cost drivers

* The functional and presentation currency for Black Earth Farming is RUR. For the convenience of the users of this report USD amounts are also presented – see note 2 (d).

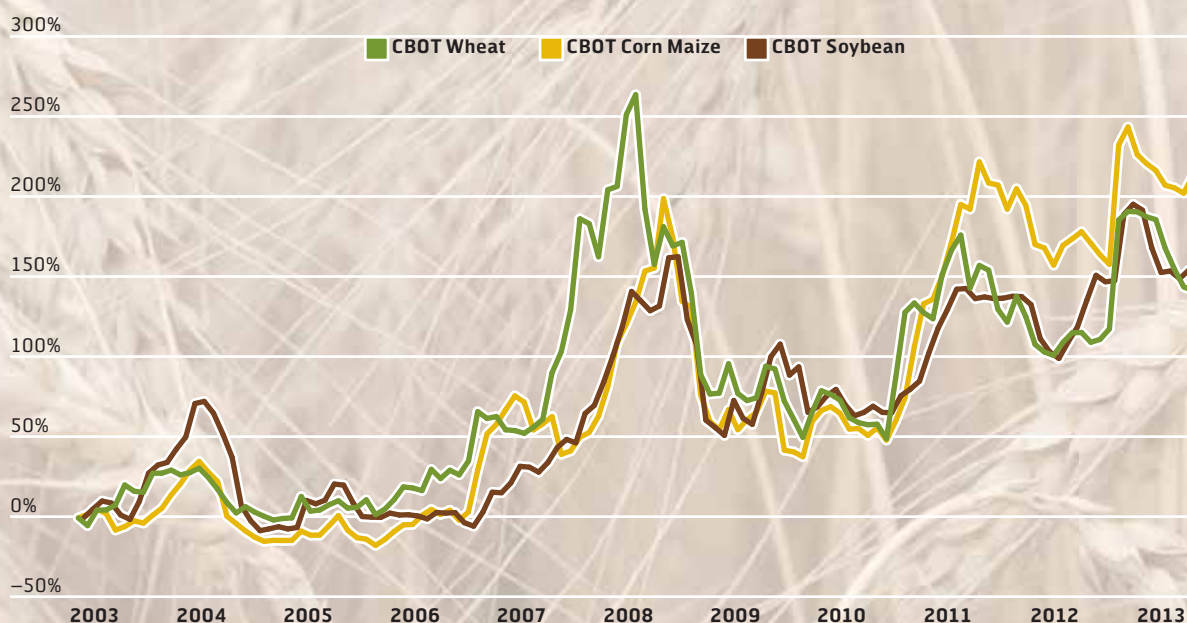
Market/Industry Overview

HIGH AND VOLATILE AGRICULTURAL COMMODITY PRICES

The Food and Agriculture Organization of the United Nations (FAO) expects prices of agricultural commodities to trend upwards over the next 10 years and to remain on a higher plateau underpinned by continuing strong demand, supply constraints and rising costs of inputs. The key issue facing global agriculture is how to increase productivity in a sustainable way to meet the rising demand for food, feed and fuel. Emerging economies are the main driver of demand growth but will also capture an increasing share of the expanding world trade in agriculture as these regions provide the main source of future global production growth.

D1: 10 Year Crop Price Development,

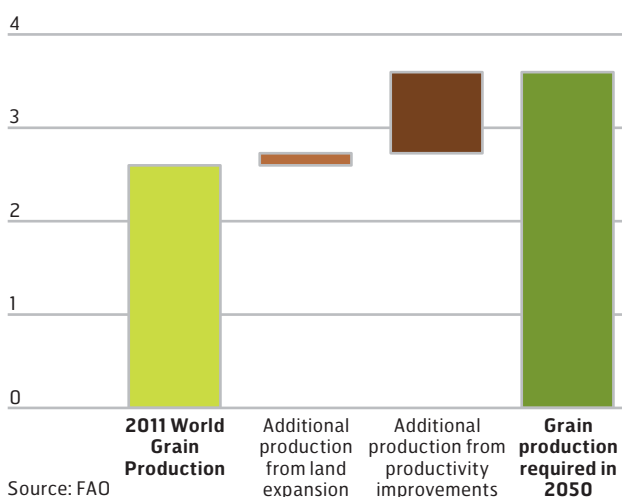
Chicago Futures Prices March 2003–March 2013, %



Source: CBOT

Over the past decade, global food prices have demonstrated extraordinary growth. Since 2003, the average consumer's food basket has more than doubled which is equivalent to an 8% average annual price increase. As the global population is growing and becoming wealthier, agricultural production assets, such as food and water, are becoming more challenging and expensive to access. Agricultural production needs to increase by more than 60% over the next 40 years to meet the rising demand for food according to the FAO. This translates into an additional 1 billion tons of cereals and 200 million tons of meat a year by 2050 compared with levels produced during 2005–2007. Additional production will also be necessary to supply expanding biofuel production. As a result global demand for agricultural commodities could significantly outstrip supply over the next several decades.

D2: The FAO 2050 cereals production scenario, billion tonnes



Source: FAO

Increasing World Population and Disposable Incomes

The world's population is partway through a significant expansion. According to the UN, the total number of people on the planet has risen from 1.6 billion in 1900 to 6.9 billion currently, and is expected to reach 9.3 billion by 2050. An additional 680 million people are expected to inhabit the planet by 2021 with the fastest population growth rates expected in Africa and India. Although the growth rate is declining, rising incomes and increased urbanization have started to lead to changes in dietary habits which shifts consumption towards more processed foods, fats and animal protein. This also drives the indirect demand for coarse grains and oilseeds used as livestock feed as only 10–15% of the energy contained in feed is transferred to humans via meat consumption. People who earn less than USD 6,000 per year, and whose participation in global consumption has so far been quite limited, still represent the majority of the global population. This group is however expected to double over the next decade. At the same time the global urbanization trend reduces both agricultural land and the eligible work force as people move into expanding cities.

Expanding Biofuel sector Demanding a Larger Share of Crop Production

While only an emerging sector in 2008, biofuels have become an important part of the global agricultural balance sheet over recent years. According to the OECD, some 65% of EU vegetable oil, 50% of Brazilian sugarcane, and about 40% of US corn were used to produce biofuels in 2011/12. By 2021, the OECD estimates that 14% of global coarse grains, 34% of global sugar cane and 16% of global vegetable oils will be used to produce ethanol and biodiesel. The increase from current levels implies that global agricultural area would have to increase by 21 million hectares just for these needs.

Resource Constraints to Land and Water

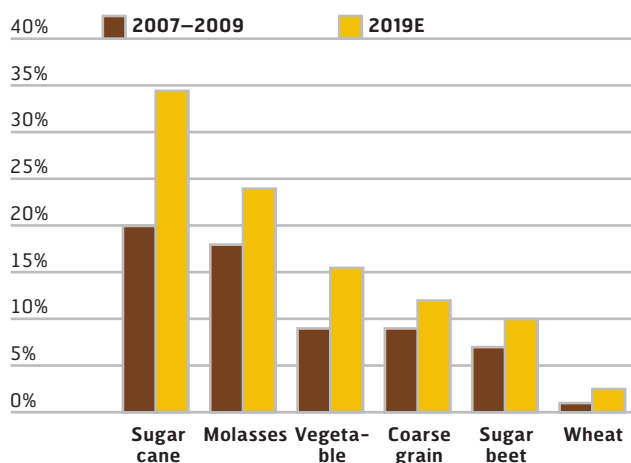
Globally, the scope for area expansion is limited. Approximately 38% of the earth's total land surface is currently used for agriculture and only 11% is classified as arable land. Arable land per capita has consistently been decreasing and practically halved over the past 50 years on the back of population growth, climate change and urbanization. FAO expects total arable land to increase by only 69 million hectares (less than 5%) by 2050.

Some 25% of all agricultural land is also highly degraded and critical water scarcity in agriculture is a fact for many countries. In 2010, some 3.1 trillion cubic meters of water was used for agricultural purposes globally, or roughly 70% of total water extraction. Constrained water availability is becoming a major obstacle for further intensification of crop production. Global Water Intelligence forecasts that by 2030, fresh water demand from agriculture could reach 4.5 trillion cubic meters, which is higher than the total supplies currently available, including surface water and groundwater.

Energy and input price inflation

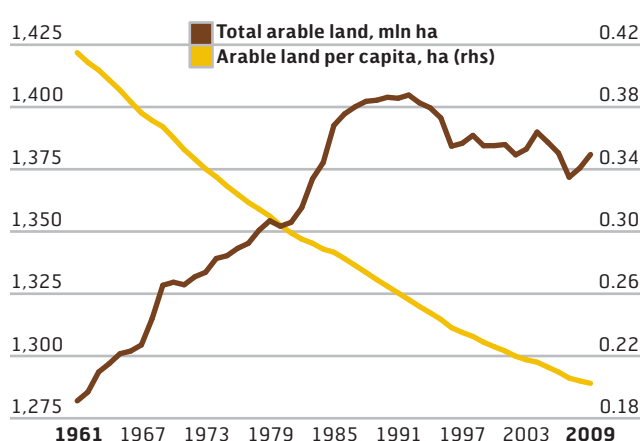
Global agriculture has also become increasingly linked to energy markets. Higher oil prices are a fundamental factor behind higher agricultural commodity prices, affecting not only oil-related costs of production such as fuel, fertilizer and agricultural chemicals, but also increasing the demand for biofuels and the agricultural feedstocks used in their production. FAO estimates that the effect of a 25% drop in the price of crude oil would lead to a 12–15% reduction in fertilizer and ethanol prices while grain and oilseed prices would fall by 3–5%.

D3: Global feedstock used for biofuel production, %



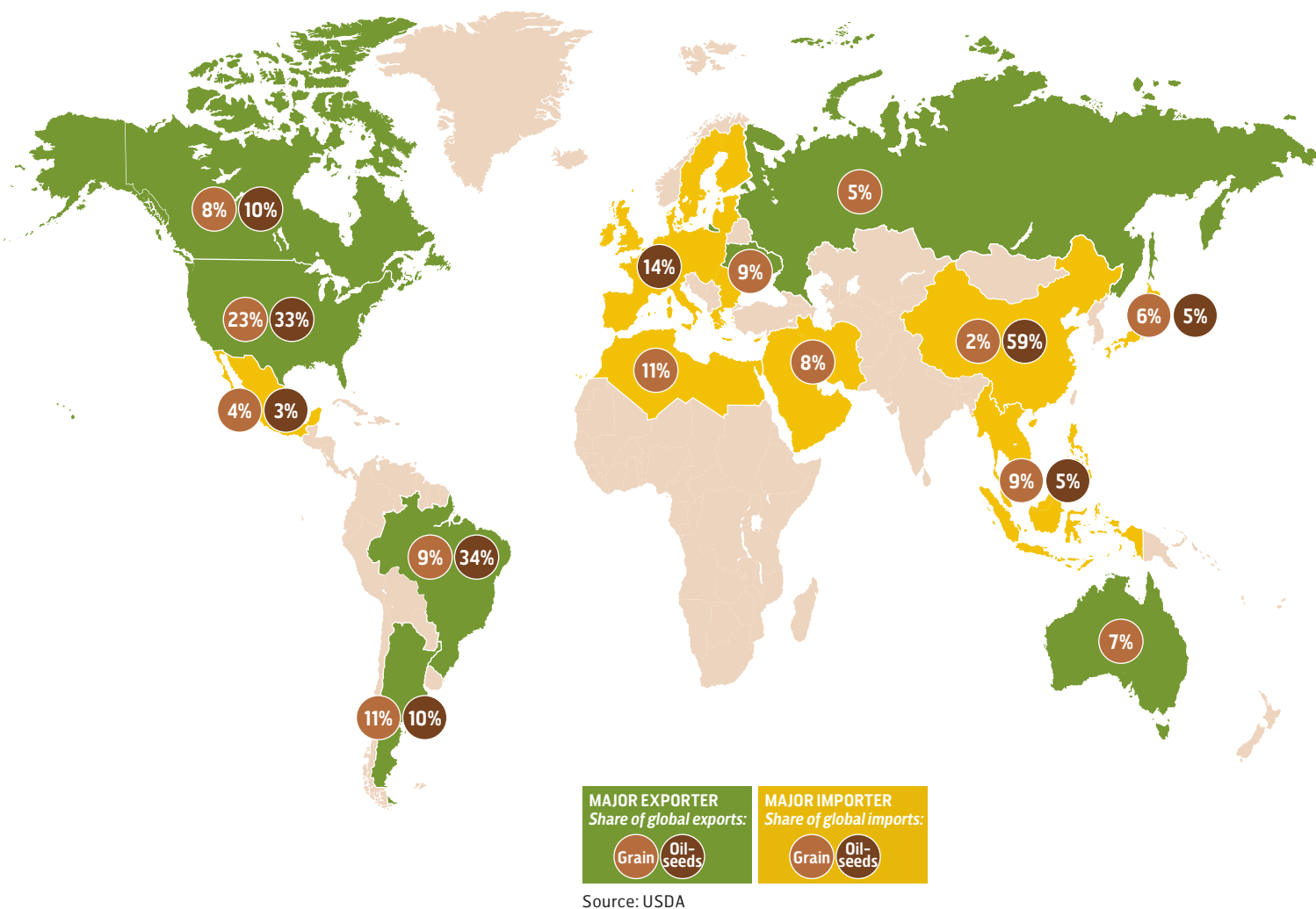
Source: OECD

D4: Global arable land per capita 1961–2009



Source: FAO, Sberbank Investment Research

Overview of International Trade in Grains and Oilseeds



Emerging Economies to Drive Demand and Provide Incremental Supply

The major demand drivers for agricultural products is concentrated to developments in emerging markets. Globally, the number of people with annual incomes in excess of USD 6,000 is set to more than double over the next 20 years, adding 2.7 billion people to the consumer middle classes. More than 90% of this increase – around 2.6 billion people – is expected to come from emerging markets, of which 1.8 billion in Brazil, China, India and Russia. China is already the dominant importer of oilseeds accounting for almost 60% of global imports. Likewise developing countries in Africa, Asia and the Middle East are the major importers of grains. All of these regions driving incremental demand have limited land and water resources to supply their increasing populations.

Additional agricultural production will need to come from increased productivity in the same way as it has for the past 50 years. Productivity gains in the medium-term needs to come primarily from reducing the productivity gap in developing countries with sufficient resources. Based on their greater potential to increase land devoted to agriculture and to improve productivity, developing countries will provide the main source of global production growth to 2021. Annual production growth in developing countries is projected by the FAO to average 1.9% per annum compared to 1.2% in developed countries in the coming years.

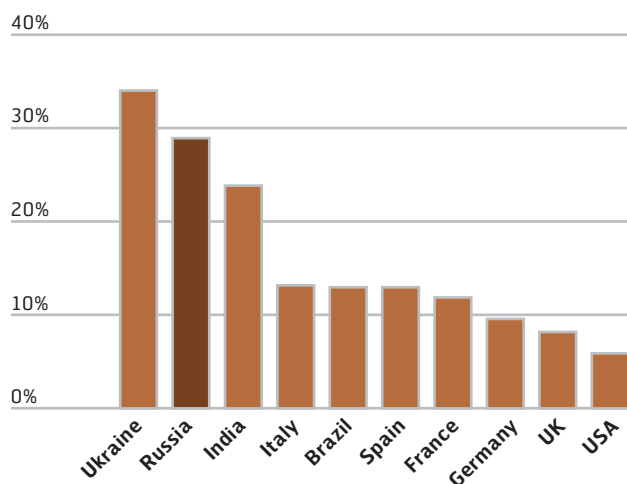
Russian Domestic Consumption is Booming

Russian household consumption expenditure, both in absolute terms and as a share of GDP have shown a sizable increase over the past decade. Consumption usually constitutes the greatest portion of GDP in any country, and while Russia ranks almost the lowest in this respect, it has shown among the fastest improvement over the past decade. Russian per capita annual disposable income stood at USD 7,533 in 2011, while per capita consumer expenditures amounted to USD 6,400. During the period 2006 to 2011, per capita annual disposable income increased 32.8% in real terms and per capita consumer expenditures grew 32.0% in real terms. By 2020, Euromonitor predicts that Russia will overtake Germany as Europe's largest consumer market.

Global FCMG Companies (e.g. PepsiCo) to Capitalize

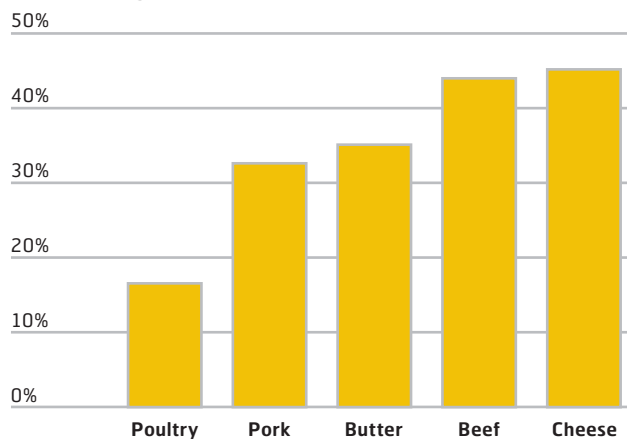
Global FMCG (Fast Moving Consumer Goods) companies are seeking to capitalize on the emergence of Russia's potential by establishing a local market presence with the need to develop adequate domestic supply chains as they continue to grow. As the world's second largest food and beverage company PepsiCo has 22 brands with annual retail sales exceeding USD 1 billion. Russia is the largest market for the company outside the US with a gross turnover of USD 5 billion, 40 production facilities and 25,000 employees. Russia has grown significantly in importance since 2009 with its major brands Lay's, HrusTeam, Pepsi, Aqua Minerale and Lipton Ice Tea. From USD 1 billion in sales and 2.1 billion of assets in 2009 (2% and 8% of the company wide total) rapid expansion has turned to sales of USD 5 billion and assets of USD 8.2 billion (8% and 15% of total) in 2011. The rapid growth has been fueled by acquisitions of the leading juice maker Lebedyansky for USD 1.8 billion in 2008 and the leading food and beverage company Wimm-Bill-Dann for USD 5.4 billion in 2011. Organic growth for beverages and snacks has also been strong with growth rates over 10% per annum driving investments into new local production capacity.

D5: Share of total expenditures spent on food, %



Source: Euromonitor

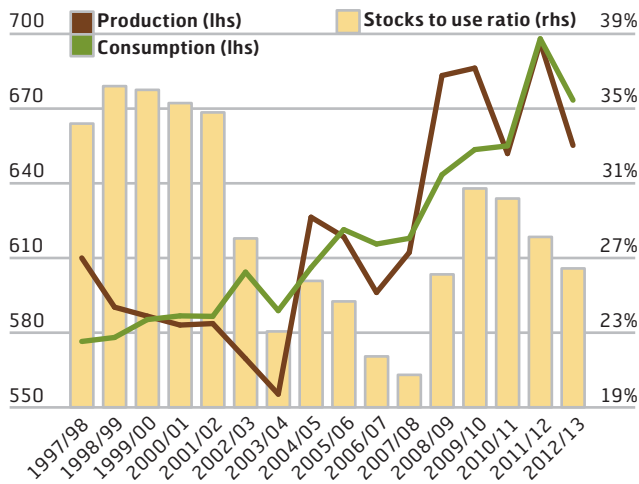
D6: Share of imports in Russian consumption of selected agricultural products 2011, %



Source: USDA

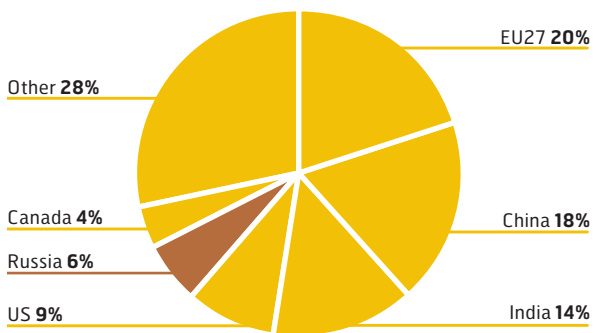


D7: Wheat: Global Production, Consumption and Stocks to Use Ratio, million tons



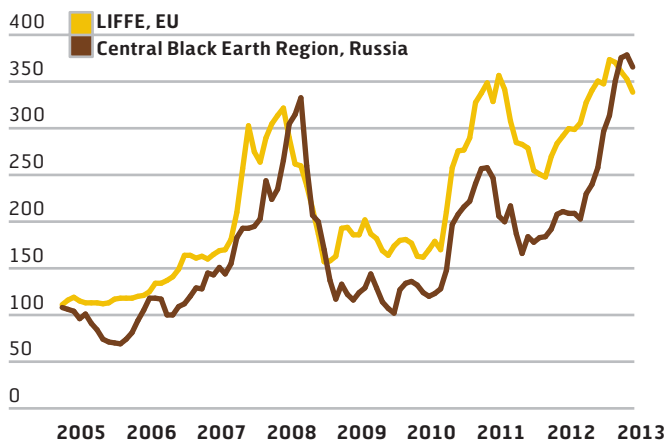
Source: USDA

D9: Global Producers of Wheat 2012



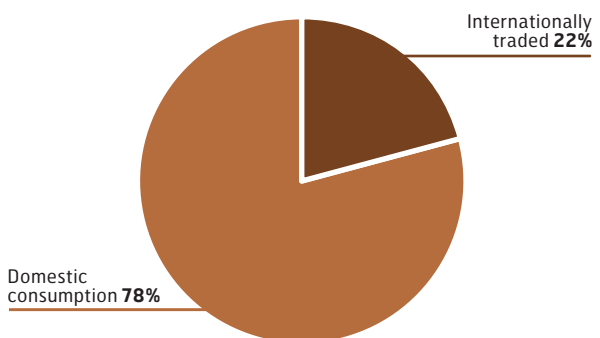
Source: USDA

D8: Wheat Prices January 2005–March 2013, USD/ton



Source: HGCA, IKAR

D10: Share of World Wheat Production Traded Internationally



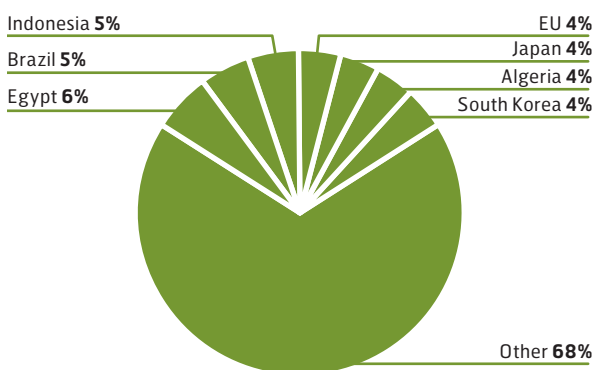
Source: USDA

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 decreased by 3.8% year-on-year to 1,851 million tons in 2012/13. Global carryover stocks have continued the declining trend since 2009/10 falling by 40 million tons (11% y-o-y) as result of drought in major exporting regions such as the U.S. and parts of Russia, Ukraine and Kazakhstan. Ending grain stocks for the world's top exporting countries is at the lowest levels for 17 years and the first annual drop in global grain consumption since 1998/99 is expected.

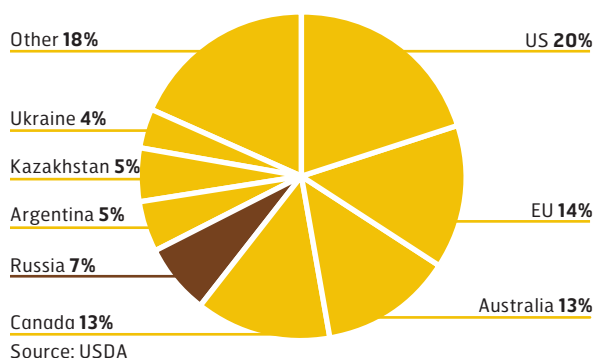
Wheat is the most important crop among grains in terms of area planted and global trade and is Black Earth Farming's largest crop by volume and revenue. The fact that only 22% and 11% of global wheat and corn production respectively is traded and that the 5 top exporters account for over 65% of

D11: 2012/13 Wheat Imports by Country



Source: USDA

D12: 2012/13 Wheat Exports by Country



total exports has great consequences for international prices when a supply shock affects one of the key producing countries. In 2012 the US drought reducing corn maize exports by 46% as well as reduced wheat supplies from Russia, Kazakhstan and Ukraine caused grain prices to soar during the second half of the year

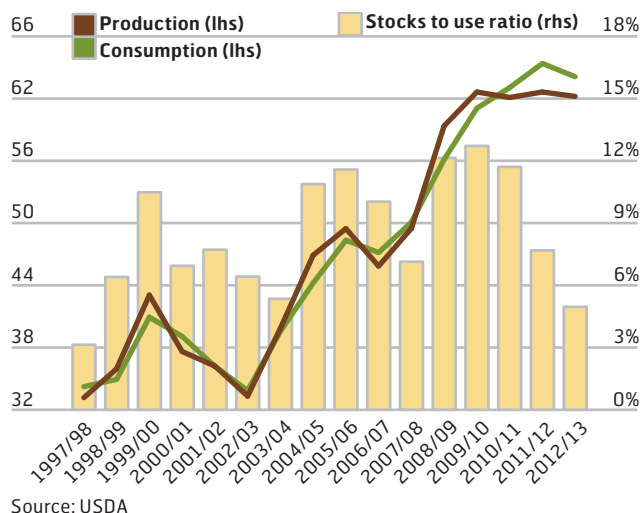
International Oilseed Markets

Oilseed crops are the second most important source of energy in food and feed after grains. They are also recognized as a significant source for production of biofuels. 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 where China is the major buyer representing 59% of total imports, with exports dominated by the US, Brazil and Argentina. Russia, Ukraine and Argentina are the main producers of sunflower seed and sunflower by-products, as well as suppliers to international markets. These three countries produce over 50% of the world's sunflower seed, which is why they are often referred to as the "sunflower triangle". Canada dominates the export markets for rapeseed/canola with 64% of shipments while the EU and China represent 50% of imports. Demand for vegetable oils as well as biofuels on the back of higher energy prices have given support to oilseed markets in general.

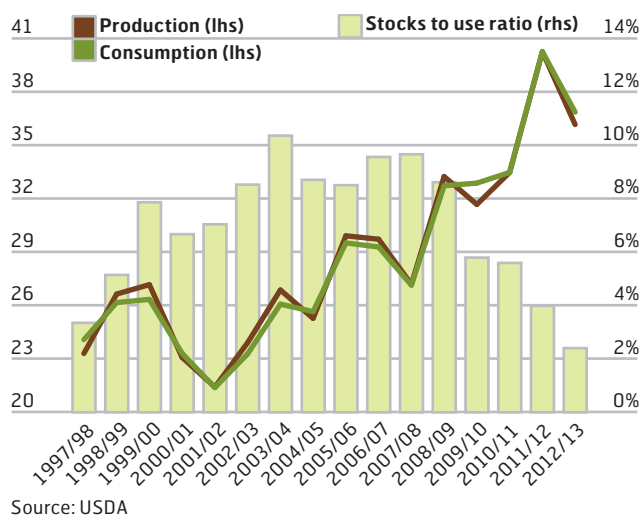
Russia

Wheat normally represents 60–70% 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 aver-

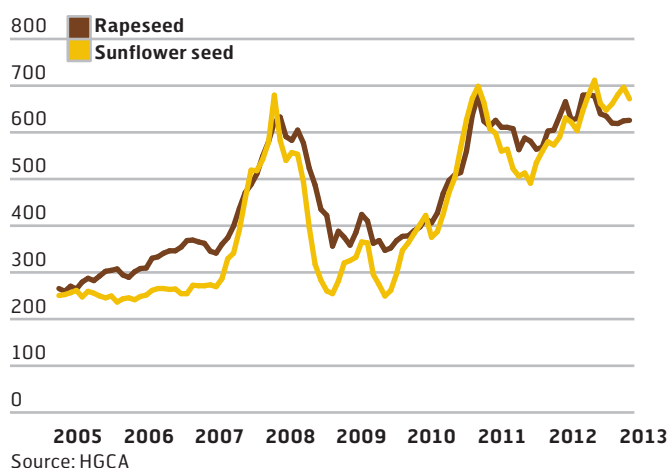
D13: Rapeseed: Global Production, Consumption and Stocks to Use Ratio, million tons



D14: Sunflower seed: Global Production, Consumption and Stocks to Use Ratio, million tons



D15: Oilseed Prices January 2005–March 2013, USD/ton



age. Russian harvest volumes in 2012 were limited yielding 67.1 million tons of grains, down 25% from 2011.

Russian domestic crop prices in central regions reached all time record highs for the 2012/13 marketing year, far above international parity prices. Following the difficult conditions in 2012 that impacted wheat supplies in southern export focused regions, Russia was on the verge of importing larger quantities of grains for the first time since 2000. Ending stocks is seen at levels lower than they were in 2010 as supplies have been reduced by relatively ample export levels as international markets have remained open for producers despite reduced harvest volumes. Russian exports of approximately 15 million tons of grains are expected for the 2012/13 marketing year which ends in June, down 44% from the record volumes in 2011. Russia is a key source of supply for the major proximate importers in Northern Africa and the Middle East accounting for an approximate 15% of total wheat exports in a normal year.

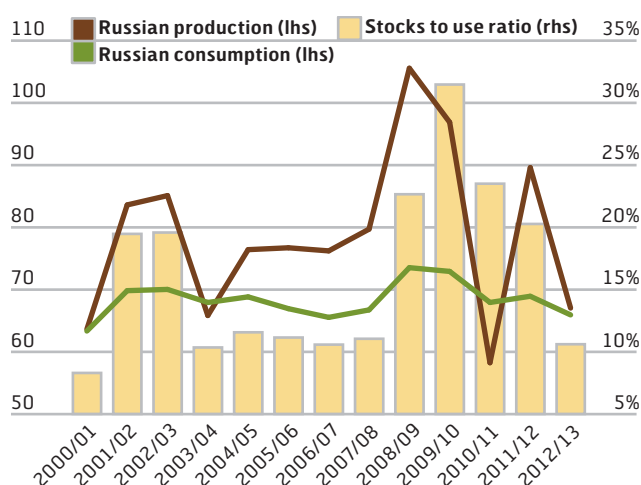
WTO Accession

In late August 2012, after almost two decades of negotiations, Russia was formally admitted as a member to the World Trade Organization. The largest impact for the agricultural sector is expected to relate to reductions in current import restrictions and tariffs for meat, especially pork production, which will affect domestic producers negatively. Russia has also agreed to decrease its export tariffs on most oilseed crops. The duty on sunflower seeds, which currently stands at 20%, will be gradually decreased to 6.5% over the course of four years, from 15.0% to 6.5% for rapeseed and from 20% to 0% for soybean. A first sign of reduced trade restrictions was evident in 2012/13 as no levies were introduced for international grain shipments despite the fact that Russia's total wheat production of 38 million tons in 2012 was 9% lower than the drought struck harvest of 2010 when an export ban was imposed.

2013 Outlook

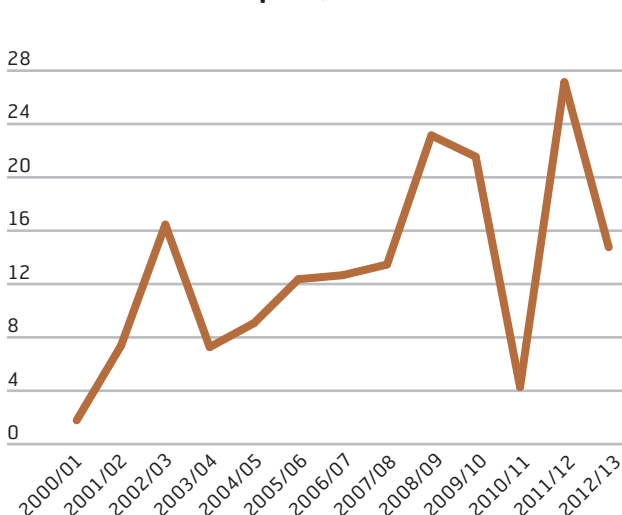
International grain and oilseed prices have resided from their peaks during 2013 as ample South American supplies and forecasts of a sharp production rebound in the U.S. have weighed on prices. With normal weather corn maize production is expected to rebound sharply in 2013/14, with US output increasing by as much as 30% year-on-year. As a result exporter stocks are projected to recover to an eight-year high in 2013/14 from the 16-year low in 2012/13. For wheat, the 2013/14 global harvest area is put at a four-year high, and a recovery in average yields should boost production by 4% from 2012/13. Some increase in major exporters' stocks is likely, but the global 2013/14 carryover is expected to rise by a modest 3 million tons. Prices for oilseeds have also been weighed by beneficial weather in South America, forecasts for better US output in 2013/14 and signs of slower international demand. The Russian 2013 winter crop area of 16 million hectares is in line with 2011, but below the record year of 2009 when almost 18 million hectares were seeded. Conditions have been mixed where BEF's central regions have had good conditions while areas around the Black Sea had a dry autumn with large areas of winter crops seeded late. Unusually high temperatures in the south have however enabled an early start to the growing season while temperatures have been cooler further inland. The key factors affecting the final harvest outcome and prices, will however be weather effects to crop yields in key producing regions during the northern hemisphere spring and summer of 2013.

D16: Russian Domestic Grain Production, Consumption and Stocks to Use Ratio, million tons



Source: IKAR, IGC

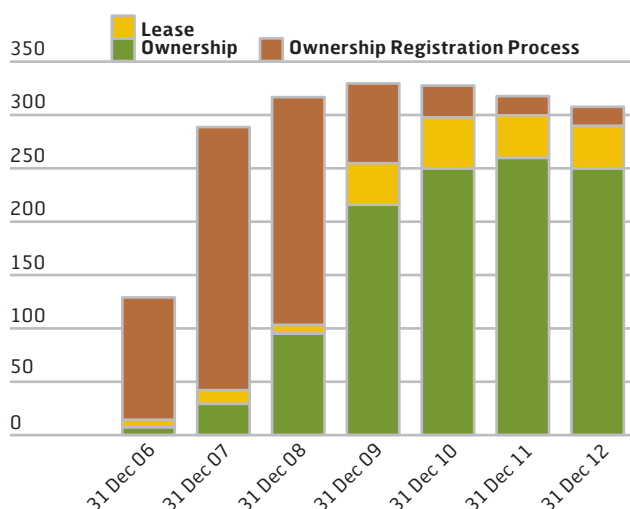
D17: Russian Grain Exports, million tons



Source: IKAR, IGC

Operational Review

D1: 2008–2012 Land Development,
thousand hectares



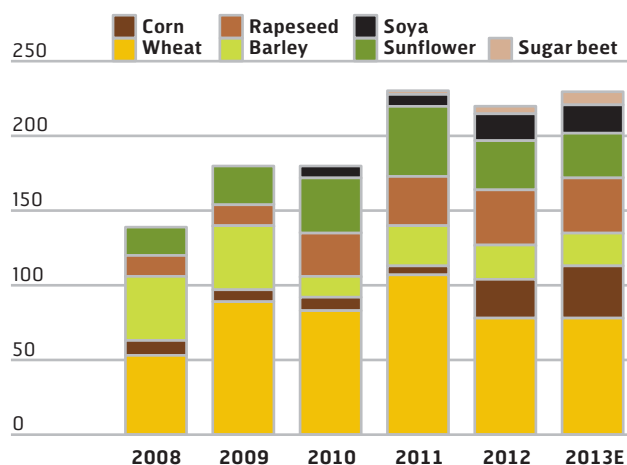
Land

Black Earth Farming holds 250 thousand hectares of land in full ownership, corresponding to 81% of the total controlled land bank of 308 thousand hectares as of 31 December 2012. 40 thousand hectares are held under long-term lease contracts running up to 49 years with the remainder in the process of ownership registration.

Consolidation and further improvement of the operational efficiencies in and around the existing farm blocks remains the Company's key target in terms of land. In April 2012 approximately 9,500 hectares were sold in Voronezh region for USD* 3.1 million. This was a mix of grass land not suitable for cropping as well as some low quality arable land with high levels of chalk. The sale is in line with the strategy of consolidating the land area to the clusters with the best potential in terms of operating performance. In addition 10,700 hectares in Samara, where operations have ceased, were reclassified in the balance sheet as investment property held for sale during the fourth quarter of 2012. The company has concluded a sales contract and has thus re-valued the land to fair value of USD* 3.5 million.

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. The Company holds 258 thousand hectares that is not leased or classified as investment property at acquisition cost, recorded in the statement of financial position at a value of USD* 59.2 million as of 31 December 2012.

D2: 2008–2013E Crop Area Breakdown,
thousand hectares



Production

Black Earth Farming has since its inception in 2005 broken long term fallow on approximately 260 thousand hectares in total. The fields have been developed back into a productive state by extensive disk-tilling to eliminate long time established weeds coupled with field levelling. The crop area has expanded rapidly from 6 thousand hectares in 2006 to over 230 thousand hectares wherefore the focus is currently on raising productivity. Improving crop yields is crucial and involves several factors concerning technical agronomy and organisational changes to improve not only technical knowledge and decision making, but also operational execution. The crop mix has also changed in recent years as wheat's share of the total crop area has declined from approximately 50% to around 35% while areas planted with corn and soya have been increased and new crops, such as sugar beet and potatoes, have been introduced to diversify production.

In 2011 a technical agronomy partner undertook an audit of historic decision making processes and made recommendations regarding strategy and crop management going forward. The review also identified what underlying data and analysis was missing for the operating regions in order to make scientific crop management decisions backed by statistically significant data. BEF has started filling the information gaps through internal research and crop trials and once completed it will be a significant competitive advantage. This internal R&D is yielding key data to ensure crop management is increasingly driven by statistically significant and well analyzed trials information which will be expanded upon in 2013.

BEF'S CROPS

Black Earth Farming grows four classes of crops; cereal grain, oilseed, beets and potatoes. 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 upon 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.

Cereals (grains)

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

39% of 2012 Revenue

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 with internally grown seeds and is like other winter crops higher yielding compared to the corresponding spring crop due to more growing days. Winter and spring wheat is harvested during the same period generally commencing in mid-July.

Barley

7% of 2012 Revenue

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

14% of 2012 Revenue

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-November.

Oilseed

Sunflower

12% of 2012 Revenue

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. The crop 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)

15% of 2012 Revenue

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 parts of the seeded area. Rape characteristics enable a crop rotation system which ensures that winter wheat can be sown the following production year. The spring variety has lower risk than the winter variety but is also lower yielding.

Soybean

8% of 2012 Revenue

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 hectare than any other major vegetable or grain crop. Soybeans, like most legumes, also perform beneficial nitrogen fixation in the soil.

Root Crops

Sugar Beet

4% of 2012 Revenue

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.

Potato

2012 trial

Approximately two thirds of the global potato production is consumed directly by humans with the rest being fed to animals or used to produce starch. Only about 5% of the world's potato crop is traded internationally. To achieve acceptable quality levels for further processing irrigation is usually employed in order to secure adequate water supply.

2012 Harvest

There were tangible improvements to the 2012 crop compared with previous years. Whilst winter wheat was below expectations, yields for spring wheat, corn, sunflower and soya crops are among the best ever achieved. Winter wheat was badly affected by a late spring which reduced available growing days by circa 10%. This was immediately followed by a sharp increase in temperatures and consecutive weeks of dry weather in May which meant that the crops rocketed though initial growth stages under stressed conditions and as a consequence many tillers, stems and ears were lost at this stage. 2012 winter crops also benefited relatively less from the corrective actions undertaken, such as correcting soil Ph and relieving soil compaction, since 2011.

Conditions were more favourable from June onwards and this together with improved quality of operations benefited later 2012 spring crop yields which all came in above historic averages and 20% better than 2011. As highlighted in table T2 crop yields for spring wheat, corn, spring rape, sunflower and soybean crops are among the best ever achieved. Spring rape could have been better if crops had not been lost due to strong winds and rain just prior to harvest. The 2012 spring crop results have also to an extent benefitted from the crop initiatives to improve yields but more so from the combination of better execution and management and more favorable weather.

2013 Harvest Prospects

The 2013 crop area will be a similar footprint to that of 2012 of approximately 230 thousand hectares. A detailed breakdown of the planned crop area is provided in Table I. Current plans are to raise the corn area further as well increasing areas of sugar beet and potatoes. This gradual shift towards more intensive crops is already changing the cost profile but is intended to pay off with compensatory revenues and earnings resulting in higher and more stable returns. 74 thousand hectares have been planted with winter wheat and was in good condition going into winter as seeding

was completed much earlier than in previous years. 85% of nitrogen applications were complete before winter which is also a key difference compared to previous years. Some 65 thousand tons of 2013 crop has been sold forward to lock in current price levels, mainly high oleic sunflower seeds and malting barley as well as some rapeseeds. Good progress is being made on adding forward sales for the 2013 crop.

5 Key Initiatives to Raise Crop Yields

The company initiated a range of initiatives to lift crop yield potential during the autumn of 2011 following an audit review of the soils with the 5 key priorities outlined below being undertaken to remove constraints. This is a multiyear process but significant progress has been made prior to seeding and post harvest during 2012. The 2012 spring crops benefited to an extent from the initiatives but the majority of the benefits are still to come through in future years. The process is expected to have an increasingly positive effect on crop yields going forward as a larger total area is corrected.

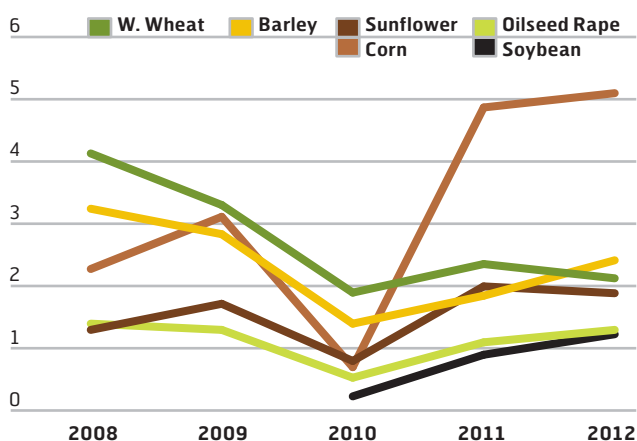
Lime application to correct soil pH

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 by-product from sugar processing. The challenge concerns 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. Since the autumn of 2011 lime has been applied on 47 thousand hectares targeted at the most acidic soils, of which 35 thousand hectares were completed during 2012. It is estimated that an additional season of lime applications in 2013 will be required in order to treat the entire target area in between crops.

Deep cultivations to relieve soil compaction

Problems have also been identified 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 had been performed prior to 2011 so in places BEF's operations had exacerbated the problem although the main issue is compaction left from Soviet times. 37 thousand hectares were subsoiled in 2011 followed by almost 100 thousand hectares during 2012 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.

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



Fertilizer, potash, phosphate and sulphur applications

Potash has historically only been applied on a replacement basis which has led to under-application and not necessarily 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 in the past. Approximately 70 thousand hectares where potash and/or phosphate levels were low have been corrected since the corrective measures began in the autumn of 2011. Additional sulphur is also being 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 were sprayed with glyphosate pre- and post 2011 harvest (5 times the area in previous years) followed by 110 thousand hectares in 2012 which has corrected the immediate problem areas. Going forward application levels will normalize at a lower level.

Seed Management

BEF uses a high proportion of home grown crops for seeding wheat due to the lack of high quality varieties suitable for the specific climatic conditions. Management of internally grown seed crops has improved significantly with the appropriate site selection, better weed control, applications of additional fungicides and micronutrients all targeted to increase seed quality.

The effects of all these measures will come through gradually over a 2–3 year period before all the problems have been fully corrected. Setting the maximum yield potential before a crop goes in the ground is critical and the progress so far is expected to be helpful for 2013 crop productivity.

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 BEFs fields illustrates a very high level of variance. The immediate focus has been on ensuring that the right machinery and managerial capacity is in place to ensure that operations are performed well and on time. Management capacity has been strengthened substantially within production at the regional level in order to reduce the number of hectares a single manager is responsible for and to increase accountability. During 2012 BEF also completed the first full year of an in-house trials programme in partnership with BASF that has been used to drive crop production decision making. Education and training programs have also been implemented to support the focus on operational execution. This will significantly increase at all levels in 2013 to improve technical decision making and operator performance further. Internalising laboratory services to ensure good soil, tissue and grain testing results is also a priority for 2013.



Spreading Lime to Correct Soil pH-levels



Deep Cultivation to Relieve Soil Compaction



Bindweed Infested Crop



Glyphosate Treated Field to Control for Weeds

T1: Harvest Area Breakdown

(Hectares)	2007	2008	2009	2010	2011	2012	2013E
Winter wheat	16,805	48,636	84,698	72,677	93,627	73,912	74,600
Spring wheat.....	n/a	4,339	3,824	10,157	13,093	4,368	3,400
Spring barley.....	20,180	42,638	43,053	13,793	26,535	22,718	22,000
Corn maize	1,215	9,950	8,084	8,592	6,149	26,003	35,000
Winter triticale	n/a	n/a	2,740	302	n/a	n/a	n/a
Total Grains	38,200	105,563	142,399	105,521	139,404	127,001	135,000
Winter rape	5,005	875	7,045	536	n/a	n/a	n/a
Spring rape	7,035	13,149	7,132	29,051	33,494	36,597	37,200
Sunflower.....	2,541	19,378	26,466	36,761	46,518	33,218	29,600
Soya	n/a	n/a	n/a	7,899	7,863	18,187	19,300
Total Oilseeds	14,581	33,402	40,643	74,247	87,875	88,002	86,100
Sugar Beet.....	n/a	n/a	n/a	n/a	1,621	5,085	8,800
Potato	n/a	n/a	n/a	n/a	n/a	31	200
Total Commercial Area.....	52,781	138,965	183,042	179,768	228,900	220,119	230,100
<i>Other/Forage crops</i>	<i>670</i>	<i>2,968</i>	<i>381</i>	<i>1,013</i>	<i>1,951</i>	<i>1,675</i>	
Total harvest area.....	53,451	141,933	183,423	180,781	230,851	221,794	

T2: Average Net Crop Yields

(Tons/hectare)	2007	2008	2009	2010	2011	2012
Winter wheat	2.9	4.1	3.3	1.9	2.4	2.1
Spring wheat.....	n/a	2.9	2.1	1.4	1.6	2.6
Spring barley.....	1.9	3.3	2.8	1.4	1.9	2.4
Corn maize	2.8	2.3	3.1	0.6	4.9	5.1
Winter triticale	n/a	n/a	2.2	0.7	n/a	n/a
Winter rape	1.2	1.6	1.4	0.5	n/a	n/a
Spring rape	0.8	1.3	1.2	0.5	1.1	1.3
Sunflower.....	1.6	1.3	1.7	0.8	2.0	1.9
Soya	n/a	n/a	n/a	0.2	0.9	1.2
Sugar beet	n/a	n/a	n/a	n/a	25.6	25.3
Potato	n/a	n/a	n/a	n/a	n/a	33.2

T3: Net Harvest Volumes

(Tons)	2007	2008	2009	2010	2011	2012
Winter wheat	48,093	201,377	280,648	137,703	220,608	157,571
Spring wheat.....	n/a	12,472	7,863	13,791	21,187	11,495
Spring barley.....	38,466	138,752	122,375	19,595	49,166	55,074
Corn	1,335	22,651	25,251	5,152	29,989	132,829
Winter triticale	n/a	n/a	5,930	211	n/a	n/a
Total Cereal Grains.....	87,894	375,252	442,067	176,451	320,950	356,969
Winter rape	6,083	1,395	10,014	246	n/a	n/a
Spring rape	5,647	16,657	8,470	15,497	36,887	46,052
Sunflower	4,126	25,285	45,580	28,904	92,805	62,759
Soya	n/a	n/a	n/a	1,818	7,114	22,364
Total Oilseeds	15,856	43,337	64,064	46,465	136,806	131,175
Sugar beet	n/a	n/a	n/a	n/a	41,531	128,405
Potato	n/a	n/a	n/a	n/a	n/a	1,029
Total Commercial Crops.....	103,749	418,589	506,131	222,916	499,287	617,578
<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>	<i>13,213</i>
Total Output.....	106,408	441,517	509,512	226,602	513,884	630,791

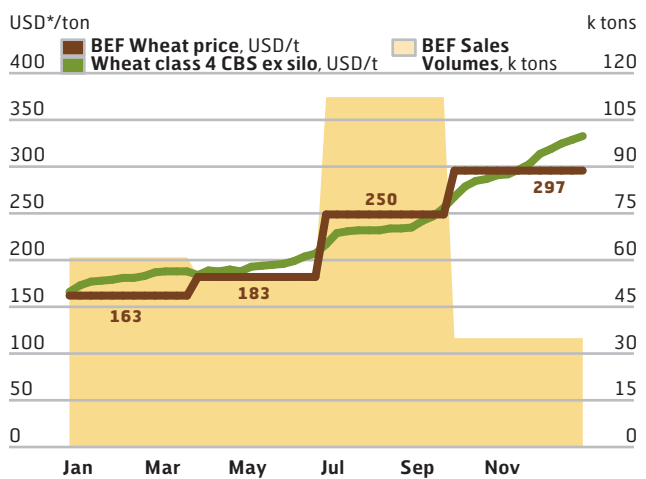
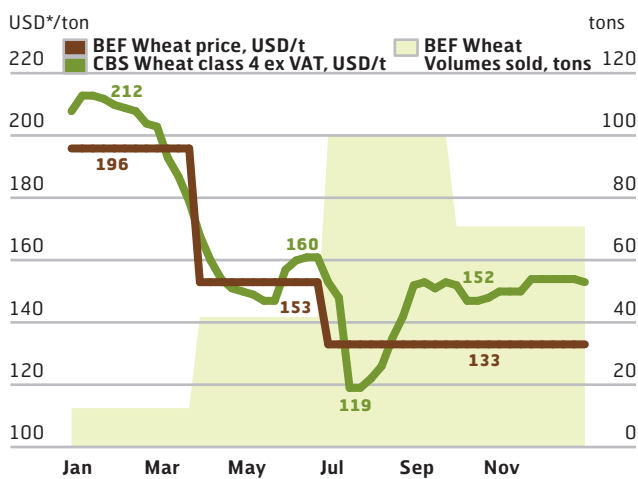
Crop Handling & Storage Logistics

The 2012 focus on improving logistics, drying and storage meant that unlike 2011 all dryers were working and elevators operated at a much higher level of efficiency. Harvest logistics was managed centrally and real time information regarding the 20 harvesting teams, which of the 40 storage sites crop was routed through and exactly what quantity, quality, moisture and admixture levels enabled the proper level of control required. This in turn ensured prices were realized at market levels and the previous problems of large price discounts in the range of 15–20% due to poor quality were avoided in 2012. Diagram D4 illustrates the sales prices and volumes for wheat during 2012 vs. market prices which is a significant improvement compared with 2011.

Sales & Marketing

Historically 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. The majority of sales were conducted on an ex-works basis i.e. the buyer organises transport to collect crops at BEF's farm gate. This has left the Company exposed to the high volatility of market prices for agricultural commodities with limited possibility to manage price risk. In order to improve this situation BEF has focused on establishing longer term relationships with quality counterparties both internationally and domestically to improve price risk management. Significant progress has been made during 2012 in this area.

D4: BEF Quarterly Average Realised Wheat Price & Sales Volume vs. Market Development, 2011 (left) and 2012 (right)



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	+	+	+	+	

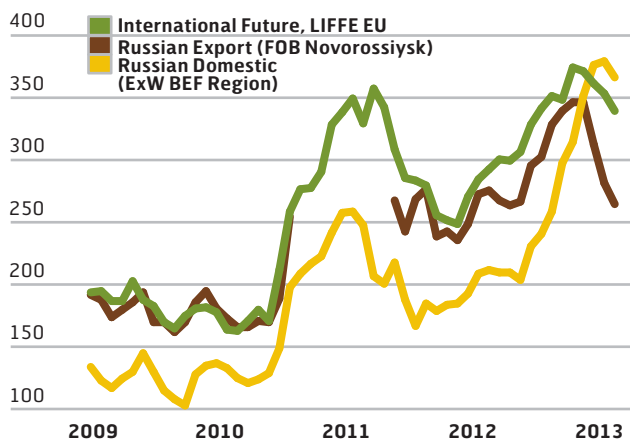
The internal elevator capacity with direct rail access enables export capability which is crucial not only for realizing higher prices but also for managing price risk by locking in prices via forward sales. In addition, contract terms including loading, transport and longer distance delivery via rail to the customer can also be included in the price. 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. Sales including transshipment also enables consolidation of larger volumes of crops with specific qualities facilitating larger and better priced contracts.

Russia lacks a functioning domestic physical forward or futures market. The high levels of defaulted contracts result

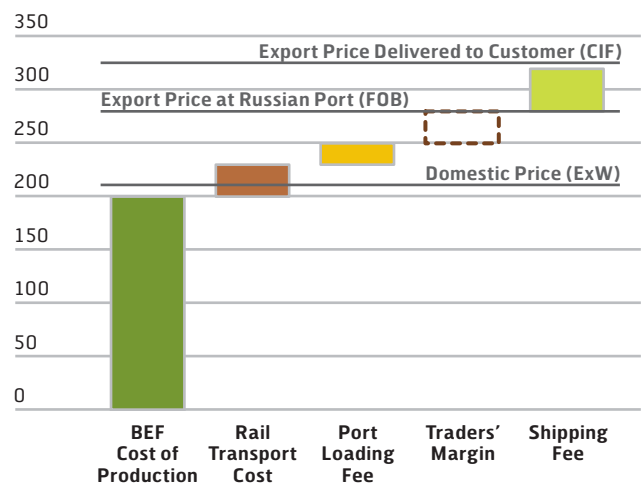
in substantial price discounts for most types of offered forward contracts. The cooperation agreement signed with PepsiCo in October 2012 will be crucial to improve domestic price risk management as it offers the potential to fix prices in advance for significant quantities of BEF's production.

In 2012 BEF executed over 100 thousand tons of direct export sales to customers in Europe of which wheat represented approximately 60%, corn 20% and the remainder consisted of rapeseeds, barley and soybeans. The initial export program was scaled back as domestic prices rose significantly during 2012 and were higher than export net back prices during the end of year.

D5: January 2009–March 2013 Wheat Price Development, USD per ton



D6: BEF Crop Cost Value Chain, USD per ton



2012 Financial Review

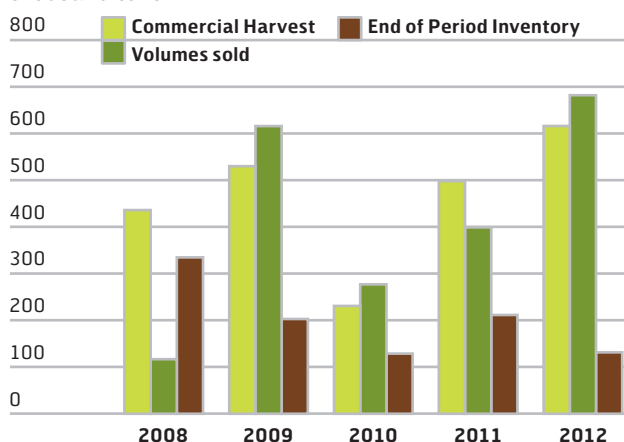
2012 was a milestone year for Black Earth Farming as the Company recorded its first full year net profit of USD* 7.2 million. Revenue increased significantly as agricultural commodity prices soared while the Company also had record high harvest and sales volumes driven by both better weather and improved internal operations. Thus both external and internal factors contributed to an operating profit of USD* 19.9 million in 2012 versus a loss of USD* 26.8 million in 2011.

Revenue

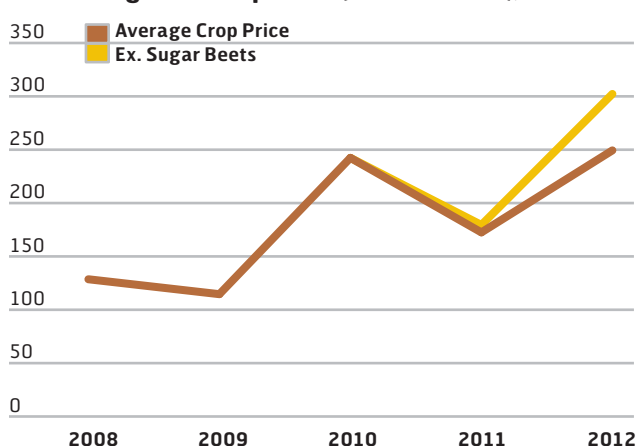
2012 revenue was positively affected by both higher crop yields as well as improved crop prices and quality. Total sales revenue of USD* 146.8 million increased 116% from 2011 with total 2012 revenue & gains up 179% year-on-year to USD* 229.3 million. 684 thousand tons of crops in total were sold during 2012, 70% of which were crops harvested 2012, up 71% from 2011 driven by larger areas of sugar beet and corn but also by better crop yields for corn, soya, spring wheat and barley. 78% of the volumes harvested in 2012 were sold by year end which is a higher share than in previous years. Wheat represented 39% of 2012 sales revenue while higher priced oilseed crops, sunflower, rape and soya constituted 35% in total. In addition an increased area of sugar beets, which is a higher yielding but lower priced crop, represented 21% of harvest volumes and 4% of 2012 revenue.

Market prices have risen steadily during 2012 with sharp increases in the second half of the year driven by global and domestic production shortfalls. The average comparable price excluding sugar beets for 2012 crop (including sales and crop in inventory) of USD* 303 per ton is up 68% from 2011. The quarterly realised price is generally affected by the sales mix and during Q4 2012 a high share of sugar beet volumes reduced the average price.

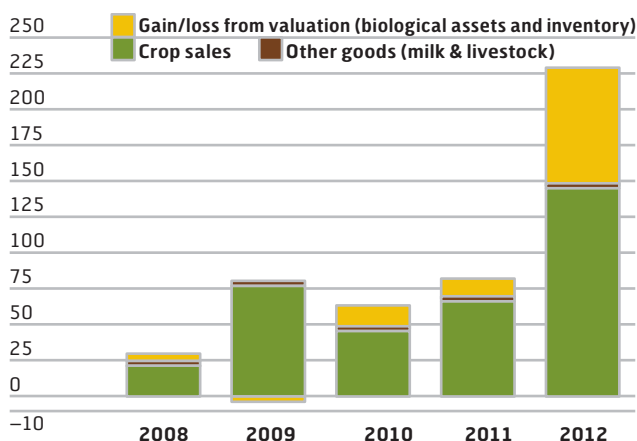
D1: 2008–2012 Production, Sales and Inventory, thousand tons



D2: Average BEF Crop Price (Harvest Year), USD*/ton



D3: Total Revenue & Gains 2008–2012, million USD*



* The functional and presentation currency for Black Earth Farming is RUR. For the convenience of the users of this report USD amounts are also presented – see note 2 (d).

T1: Revenue and Result per Hectare (Harvest Year¹)

	2008	2009	2010	2011	2011 ex. SB	2012	2012 ex. SB ²
Average Net Crop Yield, tons (sold)/ha	2.88	2.69	1.11	2.12	2.02	2.74	2.21
Average Price, USD*/ton	129	115	243	173	180	250	303
Revenue per Hectare, USD*/ha	372	309	269	368	364	685	671

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.

2. Realised sales and mark to market of crop inventory a/o 31 December 2012.

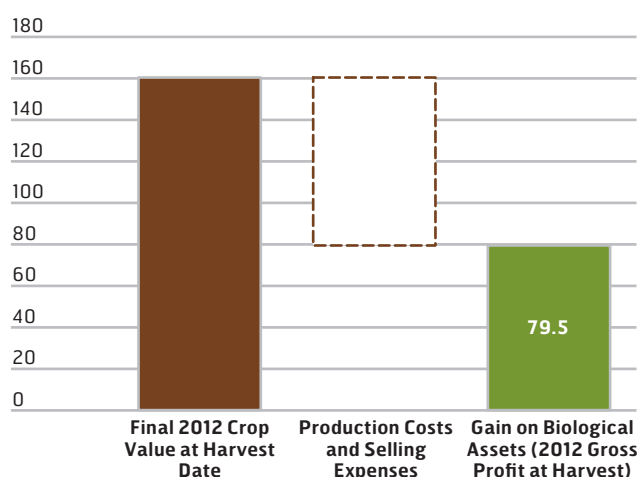
Gain/Loss on Revaluation of Biological Assets & Inventory

Total 2012 revenue and gains of USD* 229.3 million includes gains from revaluation of biological assets in the amount of USD* 79.5 million representing 35% of total revenue. That compares with a USD* 17.0 million gain for the same period in 2011. 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. Significantly higher crop prices in 2012 as well as improved harvest volumes resulted in a higher 2012 crop value compared to 2011 which is the key driver of the improved 2012 gross result versus 2011. Higher 2012 production costs countered the revenue improvement somewhat.

132 thousand tons of crops harvested in 2012 were held in inventory as of 31 December 2012, with 38% of the volumes consisting of corn, 31% sunflower and 18% barley. Market prices (excluding 10% VAT) detailed in table T2 have been used to determine the net realizable value of USD* 46.7 million. The revaluation of finished goods inventory resulted in a USD* 3.0 million gain during 2012 as a result

of favourable market price developments for 2012 crops in inventory post harvest. As of the reporting date biological assets consisted mainly of costs incurred for seeding of winter crops to be harvested 2013 amounting to USD* 33.1 million.

D4: 2012 Gain on Biological Assets, USD* million



T2: 2012 Quarterly Sales Volume & Crop Inventory

	4Q 2012	Quarterly Sales			Crop in Inventory	
		3Q 2012	2Q 2012	1Q 2012	31 Dec 2012	31 Dec 2011
Volume, k tons						
Wheat	35.4	112.5	55.0	61.9	10.7	115.5
Barley	16.5	17.7	11.8	5.9	23.9	18.5
Corn	83.1		2.3	25.2	50.0	29.0
Rape	13.9	31.3	8.0	4.6	2.4	13.9
Sunflower	18.4	1.7	10.7	17.2	40.9	24.7
Soya	17.4		0.8	5.2	3.2	6.8
Sugar beet	93.5	34.9				
Other (seeds/forage)	1.3	1.1	0.3	0.5	0.6	3.5
Total Tons	279.6	199.2	89.0	120.5	131.8	211.9
Price, USD*/ton						
Wheat	293	247	180	161	321	165
Barley	196	210	178	159	263	174
Corn	210		132	127	260	126
Rape	338	418	393	191	524	263
Sunflower	413	509	286	287	510	316
Soya	534		312	315	493	329
Sugar beet	50	52				
Other	16	137				
Average Price	205	238	196	166	321	190

* The functional and presentation currency for Black Earth Farming is RUR. For the convenience of the users of this report USD amounts are also presented – see note 2 (d).

Costs

The company holds crop inventory marked to market at net realizable 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 2012 crop if recorded in biological assets as of the start of the reporting period. Cost of sales for 2011 crop held in opening inventory therefore constituted the market value as of 31 Dec 2011. Thus the accounting treatment of cost of sales in the income statement and actual cost of sales differ significantly.

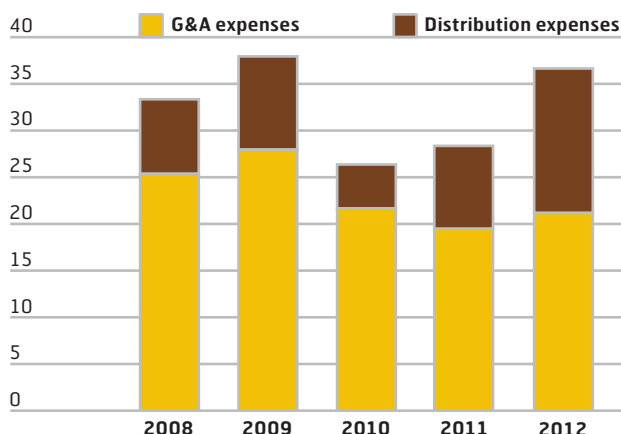
Black Earth Farming's production cycle commences with seeding of winter crops during the fall in the prior calendar year and includes several stages of field works until the harvest period commences in July through October depending on crop (please see diagram D9 on page 34). Approximately 30–40% of costs are incurred in the fall of the preceding calendar year as winter crops are seeded and fields are cultivated in the autumn. The remaining 60–70% is incurred during the spring and summer in the same calendar year as part of the spring seeding, 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. 2012 production costs increased as the crop area included a higher share of more intensive crops such as corn and sugar beet which cost more to produce per hectare. Like for like direct cost increases from a combination of input price inflation, increased application rates and much higher prices for key inputs such as fertilizer, seeds, sprays and fuel as well as the corrective measures being undertaken to raise crop yield potential also contributed to higher direct costs in 2012.

G&A expenses increased by USD* 1.8 million in 2012 as a result of new hires to strengthen the regional production teams as well as professional services rendered such as legal fees, technical agronomy and turnaround projects. Indirect costs that are unrelated to crop yield performance is however being reviewed with a target to reduce overhead costs. Volume driven distribution costs are up USD* 6.5 million in 2012 compared to 2011 as transport and delivery expenses were incurred for larger volumes. Distribution costs per ton increased by 2% year-on-year.

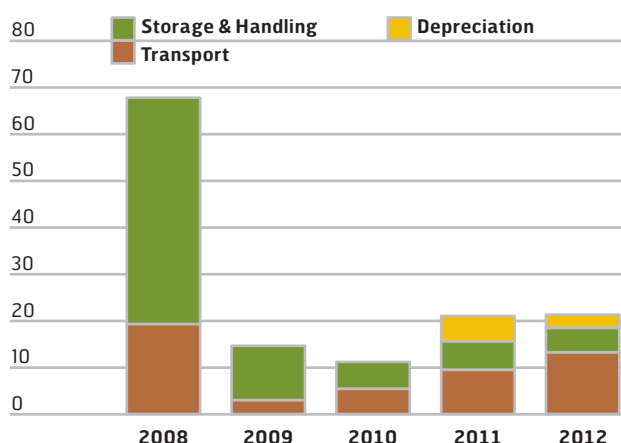
Result

The 2012 operating result improved significantly compared to previous years as highlighted in diagram D7 mainly driven by the gross result which is very sensitive to crop price movements that affect changes to inventory value (both crops in storage and standing in fields) between reporting dates. The 2012 gross profit of USD* 55.3 million is significantly higher than USD* 2.8 million in 2011. Revaluation of biological assets is the main factor behind the improvement as the 2012 harvest showed improvements to crop yields while crop prices are significantly higher compared to 2011. The carry-in inventory of 2011 crops was sold during 1H 2012 at prices in line with the recorded value wherefore the effect on 2012 gross result was neutral.

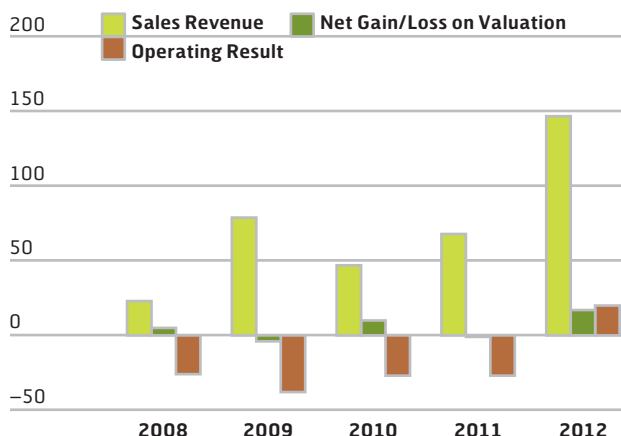
D5: G&A Expenses, USD* million



D6: Distribution Expenses Breakdown, USD* per ton sold



D7: 2008–2012 Revenue & Operating Result, USD* million



* The functional and presentation currency for Black Earth Farming is RUR. For the convenience of the users of this report USD amounts are also presented – see note 2 (d).

A key factor driving the improvement of 2012 results was the drought in the US Midwest which resulted in substantially higher international prices for grains and oilseeds. With no imposed export restrictions it also resulted in record highs for Russian domestic prices. The price effect on the Company's 2012 gross profitability is an approximate USD*45 million improvement versus 2011. In addition volumes improved as crop yields for spring wheat, corn, sunflower and soya were among the best ever achieved. The improved volumes of comparable crops, excluding an increased area of higher yielding sugar beets, is an approximate USD* 8 million improvement versus 2011. Improving harvest logistics in terms of drying and storage operations also helped preserve crop quality enabling sales prices to be realized at market levels unlike 2011. This is an improvement of approximately USD* 15 million compared to 2011. Full year operating profit of USD* 19.9 million also includes USD* 3.2 million of gains related to land sales and revaluation of investment property (assets held for sale). EBITDA of USD* 35.5 million and net profit of USD* 7.2 million in 2012 is up from losses of USD* -13.0 and -44.2 million respectively in 2011 driven by the improvements in gross profitability.

T3: Summarized Income Statements 2008–2012

USD* million	2008	2009	2010	2011	2012
Total Revenue	28.0	75.2	63.5	82.3	229.3
Gross Result	10.4	(1.1)	9.3	2.8	55.3
Operating Result	(26.0)	(38.2)	(27.2)	(26.8)	19.9
Net Result	(24.2)	(44.4)	(38.5)	(44.2)	7.2

Assets

Since inception Black Earth Farming has invested in (a) acquiring and registering farm 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 as well as improving the throughput and efficiency of the storage sites.

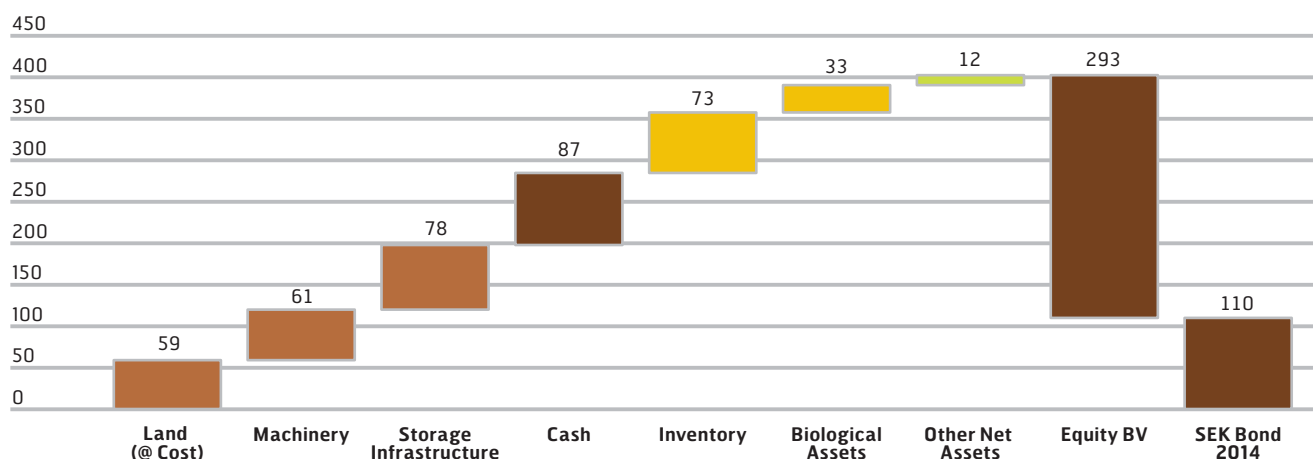
Fixed Assets

Fixed assets of USD* 198.0 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 but the Company believes that Russian agricultural land remains undervalued, both in comparative terms and in relation to its inherent production potential. 10.7 thousand hectares in Samara, where operations ceased in 2009, was reclassified in the balance sheet as investment property held for sale during Q4 2012. The company has concluded a sales contract and therefore revalued the land to fair value of USD* 3.5 million. Apart from this, no revaluation of land has been made in the statement of financial position. As of December 31, 2012 the Company has a total of 308 thousand hectares under control. 258 thousand hectares that is not leased or classified as investment property is recorded at acquisition cost in the statement of financial position at a value of USD* 59.2 million as of 31 December 2012. 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. During the past two years several larger transactions of Russian farmland have taken place in proximate regions of Russia indicating valuations of USD* 700 to 1000 per hectare. Black Earth Farming is fully focused on realizing that production potential and generate cash flows from its assets to unlock that land value.

D8: Simplified Balance Sheet a/o 31 December 2012, USD* million



* The functional and presentation currency for Black Earth Farming is RUR. For the convenience of the users of this report USD amounts are also presented – see note 2 (d).

Inventory

132 thousand tons of crops harvested in 2012 were held in inventory as of 31 December 2012, with 38% of the volumes consisting of corn, 31% sunflower and 18% barley. Market prices (excluding 10% VAT) detailed in table T2 have been used to determine the net realizable value of USD* 46.7 million. In addition USD* 26.4 million of raw materials and consumables resulted in total inventory value (excluding biological assets) of USD* 73.1 million.

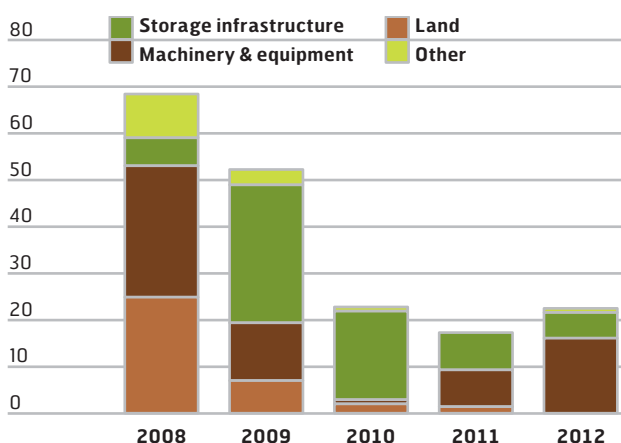
Financial Position

On 11 July 2012 a USD* 25 million working capital facility carrying an annual 11% interest rate was obtained from the two major shareholders, Kinnevik and Vostok Nafta. The majority was repaid during August and September as the harvest and sales of 2012 crops commenced. The amount outstanding was used as partial payment to subscribe for their pro rata share of the rights issue announced on 21 October 2012. On 13 November 2012 an Extraordinary General Meeting authorised the Board of Directors to carry out a SEK 530 million rights issue where 83.1 million new Swedish Depository Receipts (SDRs) were issued for SEK 6.38 per share. A strengthened equity base was needed to fund the planned capital investments relating to the strategic cooperation agreement signed with PepsiCo and working capital needs to complete the operational turnaround. As of 31 December 2012 the Company had USD* 86.9 million in cash and SEK 685 million (USD* 109.8 million) of interest bearing debt consisting of bonds maturing in July 2014. Net interest bearing debt amounted to USD* 22.9 million as of the end of the reporting period.

Cash Flow

Farming cash flows are highly seasonal and can vary greatly from quarter to quarter. The majority of cash outflows relating to direct operating costs and capital expenditures arise during the first half of the calendar year while revenue inflows commence post harvest from July and into the following calendar year. Cash flow from operations before changes in working capital amounted to USD* 20.4 million for 2012, driven by higher sales and harvest volumes as well as a strong development for crop prices. Working capital increased by USD* 11.1 million as costs incurred for 2013 crop recorded in biological assets increased. Net investments amounted to USD* 18.3 million where USD* 21.4 million of capital expenditures were offset by proceeds from land disposals. Net proceeds of USD* 78.1 million was raised via the rights issue concluded in December 2012. Bond interest payments of USD* 12.0 million as well as net bond repurchases resulted in total net cash flow for 2012 of USD* 52.7 million.

D9: Capital Expenditures 2008–2012, USD* million



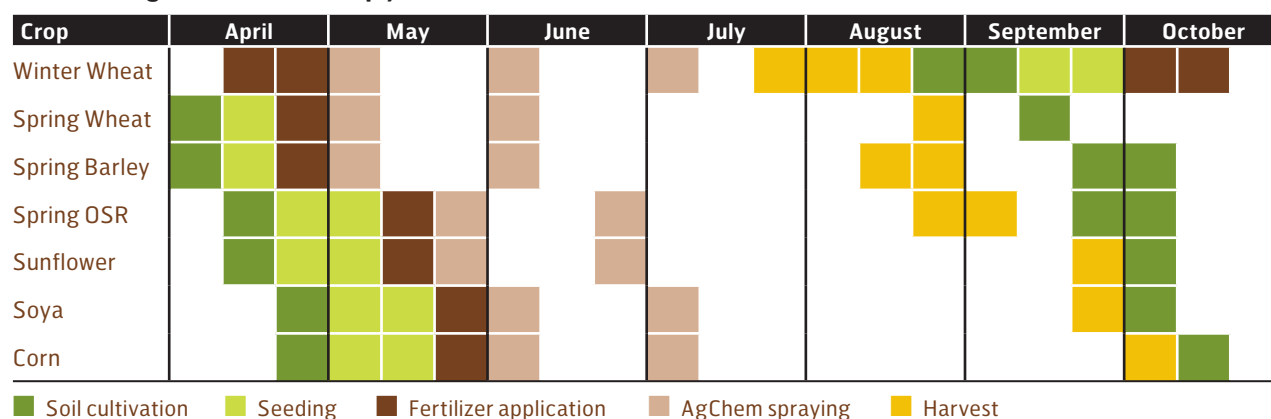
* The functional and presentation currency for Black Earth Farming is RUR. For the convenience of the users of this report USD amounts are also presented – see note 2 (d).

Biological Assets

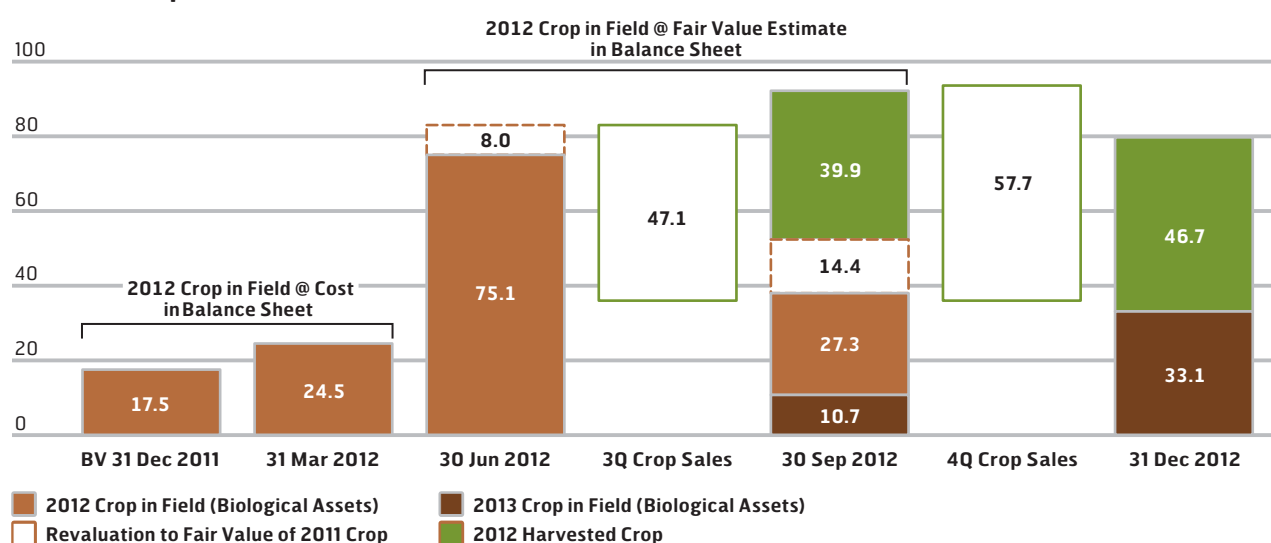
Biological assets are recorded in the statement of financial position as an estimated value of crops in fields. A way to look at biological assets is as a work in process (WIP) inventory. Depending at what stage of the growth cycle the crop is in, the value is estimated either by incurred costs for field works (cultivations, seeding, fertilizer spreading, herbicide spraying etc.) or an estimate of revenue (harvest volume and price per crop) less production and 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 31 December 2012 biological assets consisted mainly of costs incurred for winter crops to be harvested in 2013 amounting to USD* 33.1 million.

D10: Farming Schedule (one crop year)



D11: 2012 Crop Value in Statement of Financial Position, USD* million



* The functional and presentation currency for Black Earth Farming is RUR. For the convenience of the users of this report USD amounts are also presented – see 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 geographical area and business model. These risks can be divided into three main categories: operational risk, market related risks and financial risks.

The recent years have highlighted the inherent volatility of the farming business as it relates to the large effect of crop volumes and prices on revenue and profitability. The Company's operating regions have been significantly affected by weather events which have had a negative effect on crop yields. Crop prices both internationally and domestically have also exhibited volatility as shifts in the balance of supply and demand has caused prices to drop and rise significantly from one year to the next. The events highlight the two key risks, volatility in crop yield and price, that the Company is exposed to as a producer of agricultural commodities. 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, modern seed varieties as well as availability of extensive public or private scientific data obtained from crop trials. Several strategies have been implemented 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 BEF 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 to remove constraints to crop yields are also underway to improve crop production going forward.

– Infrastructure and Logistics

An important factor for BEF 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. As BEF expands its export program securing adequate rail transport and port handling capacity is crucial in order to be able to execute contracts with international customers. A cooperation has been established with an international partner regarding port capacity but concerning rail transport logistics the Company is dependent on the State controlled operator to obtain sufficient throughput capacity.

– Employees

The Group's management team consists of a few but increasing number of key 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 and willingness to operate in very rural areas is intense, due to the relatively 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 are a significant risk affecting BEF as the majority 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 improve timely field works which can partially mitigate weather effects on crop yields. The inherent volatility relating to weather factors will be still be present but by lifting crop yield potential and removing constraints to yields, the sensitivity of the Company's results to seasonal weather patterns will reduce over time. Additional measures being taken to reduce weather volatility is diversifying crops with the expansion of beets in addition to grains and oilseeds as well as irrigated potato production. For 2013 the Company also intends to use crop insurance to hedge against negative effects on crop yields from major weather events.

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ii. Climate change

Effects of global warming are 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 crops in the company's operating regions.

– 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 agricultural policies, changes to global demand and supply of similar and competing 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. In October 2012 BEF signed a cooperation agreement with PepsiCo in Russia as part of the strategy to establish longer term relationships for price risk management.

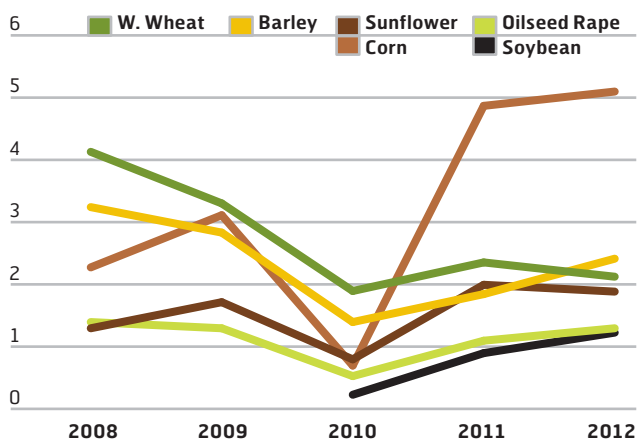
ii. Input Prices

Fertilizers, seeds, herbicides and fuel are key inputs in the Company's production process and comprise a high share of 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.

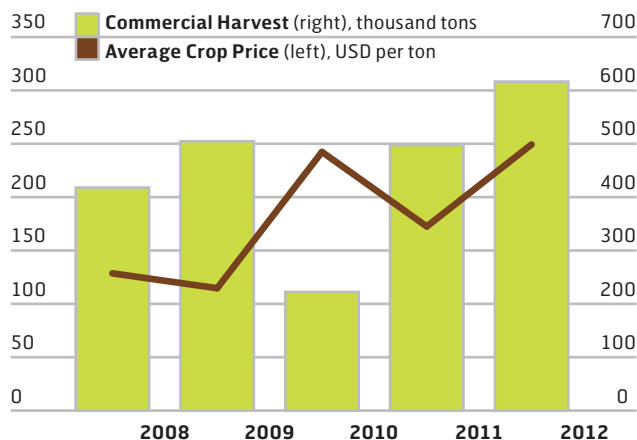
– Political and Regulatory Risk

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. Russia's entry to the World Trade Organization will likely reduce the probability

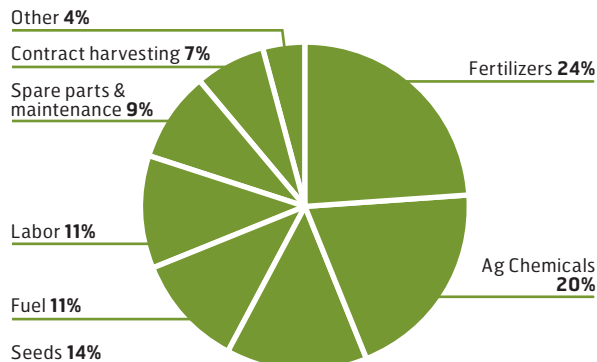
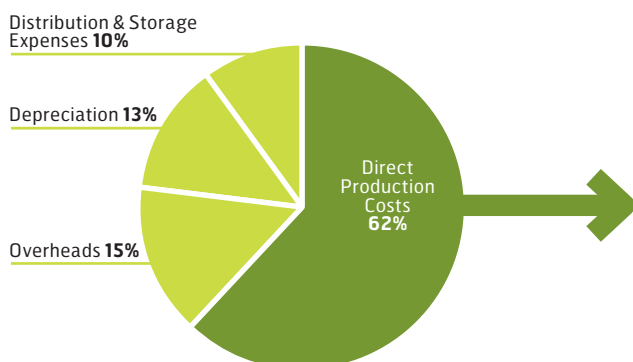
D1: 5 Year Yield Development per Crop,
tons per hectare



D2: 2008–2012 BEF Crop Volume and Price Development



D3: Breakdown of Operating Costs (left) and Direct Production Costs (right), Production Year 2012



* The functional and presentation currency for Black Earth Farming is RUR. For the convenience of the users of this report USD amounts are also presented – see note 2 (d).

of trade distortions as was demonstrated in 2012 when no trade restrictions were imposed on grains despite a very low Russian harvest. Domestic government support for selected sub sectors of Russian agriculture is expected to remain in one form or the other. For more information on risks relating to land ownership see note 32.

– 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, 30 and 32.

– Financing risk

Financing risk refers to the risk of Black Earth Farming being unable to satisfy its need for new capital. The company completed a SEK 530 million rights issue in December 2012 to finance investment and working capital need relating to the PepsiCo agreement announced in October and strengthened the equity base. Although the Company generated cash from operations in 2012 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. The majority of sales are made on a prepayment basis wherefore counterparty or credit risk in concerning receivables is limited. Longer term relationships are being sought with highly credit worthy counterparties. The Group limits its exposure to credit risk by placing surplus funds on deposit with a variety of established banks in Russia and abroad.

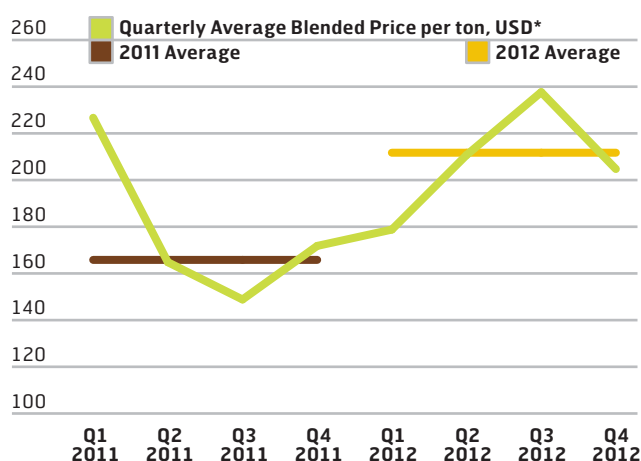
– Interest rate risk

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). As the majority of costs are in RUR the Company has hedged periodic fluctuations in its export revenue contracts which are denominated in Euros. See note 29 for more information.

D2: BEF Realized Price 2011–2012, USD*/ton



T1: Sensitivity Analysis

Effect of potential changes on 2012 Net Profit

Item	10% increase USD* thousand	2012 Net Profit USD* million	% change
Revenues			
Volume (area and/or yield)	14.5	21.7	201%
Price	14.5	21.7	201%
Costs			
Personnel	2.5	4.8	–34%
Fertilizer	2.1	5.1	–29%
Capital cost (depreciation)	1.9	5.3	–26%
Sprays	1.8	5.4	–25%
Net interest expense	1.3	5.9	–18%
Seed	1.2	6.0	–17%
Fuel	1.0	6.2	–14%

Foreign Exchange

USD* million	Net exposure		Sensitivity analysis Effect of 10% increase on	
	2012	2011	Equity	Profit or loss
USD/RUB	–2.1	–0.7	–0.2	–0.2
EUR/RUB	3.1	5.9	0.3	0.3
SEK/RUB	–53.8	–103.1	–5.4	–5.4

* The functional and presentation currency for Black Earth Farming is RUR. For the convenience of the users of this report USD amounts are also presented – see note 2 (d).

Five Year Summary

Profit & Loss (Million)	2008* RUR	2009 RUR	2010 RUR	2011 RUR	2012 RUR	2008 USD**	2009 USD**	2010 USD**	2011 USD**	2012 USD**
Sales Revenue	699	2,395	1,430	2,067	4,458	23.0	78.8	47.1	68.1	146.8
Change		243%	-40%	45%	116%		243%	-40%	45%	116%
Total revenue and gains	852	2,283	1,928	2,499	6,965	28.0	75.2	63.5	82.3	229.3
Change		168%	-16%	30%	179%		168%	-16%	30%	179%
Gross profit/(loss)	315	-33	284	86	1,680	10.4	-1.1	9.3	2.8	55.3
Margin		Neg.	15%	7%	24%		Neg.	15%	7%	24%
Operating profit/(loss)	-791	-1,161	-827	-813	605	-26	-38	-27	-27	20
Margin		Neg.	Neg.	Neg.	9%		Neg.	Neg.	Neg.	9%
Profit/(loss) before income tax	-738	-1,306	-1,232	-1,303	287	-24	-43	-41	-43	7
Margin		Neg.	Neg.	Neg.	4%		Neg.	Neg.	Neg.	4%
Net profit (loss)	-734	-1,349	-1,171	-1,342	218	-24	-44	-39	-44	7
Margin		Neg.	Neg.	Neg.	3%		Neg.	Neg.	Neg.	3%
Basic profit(loss) per share (RUR/USD**)	-5.91	-10.83	-9.39	-10.77	1.68	-0.19	-0.36	-0.31	-0.35	0.06
Diluted profit(loss) per share (RUR/USD**)	-5.91	-10.83	-9.39	-10.77	1.68	-0.19	-0.36	-0.31	-0.35	0.06
Cash Flows (Million)	RUR	RUR	RUR	RUR	RUR	USD**	USD**	USD**	USD**	USD**
Cash flows utilised by operating activities	-1,941	5	-773	-1,224	-92	-63.9	0.2	-25.5	-40.3	-3.0
Cash flows utilised by investing activities	-1,486	-1,259	-741	-547	-554	-48.9	-41.4	-24.4	-18.0	-18.3
Cash flows from financing activities	401	-352	1,291	-181	2,247	13.2	-11.6	42.5	-6.0	74.0
Financial position and return (Million/%)	RUR	RUR	RUR	RUR	RUR	USD**	USD**	USD**	USD**	USD**
Total assets	12,543	11,050	11,282	10,153	12,822	413	364	371	334	422
Property, plant and equipment	4,408	5,531	5,922	6,020	6,014	145	182	195	198	198
Cash and cash equivalents	4,605	3,211	2,983	985	2,639	152	106	98	32	87
Total equity	10,055	8,744	7,605	6,289	8,905	331	288	250	207	293
Equity per share	80.7	70.2	61.0	50.5	42.9	2.7	2.3	2.0	1.7	1.4
Operating cash flows per share	-15.6	0.0	-6.2	-9.8	-0.4	-0.5	0.0	-0.2	-0.3	0.0
Debt/Equity	19%	21%	43%	52%	36%	19%	21%	43%	52%	36%
Equity/Assets	80%	79%	67%	62%	69%	80%	79%	67%	62%	69%
Non-current loans and borrowings	1,936	1,838	3,297	3,266	3,162	64	61	109	108	104
Gross margin ¹	37%	Neg.	15%	7%	24%	37%	Neg.	15%	7%	24%
Operating profit margin	Neg.	Neg.	Neg.	Neg.	9%	Neg.	Neg.	Neg.	Neg.	9%
Net profit margin	Neg.	Neg.	Neg.	Neg.	3%	Neg.	Neg.	Neg.	Neg.	3%
Return on Equity	Neg.	Neg.	Neg.	Neg.	3%	Neg.	Neg.	Neg.	Neg.	3%

1. Gross margin less gain on revaluation of biological assets

Production & Sales	2008*	2009	2010	2011	2012
Commercial Harvested area (ha)	138,965	183,042	179,767	228,900	220,119
Year-on-year change		32%	-2%	27%	-4%
Commercial Gross Harvest (tons)	418,589	506,131	222,916	499,287	617,578
Year-on-year change		21%	-56%	124%	24%
Volumes Sold (tons)	117,066	617,360	277,694	399,473	683,610
Year-on-year change		427%	-55%	44%	71%
End of Period Inventory (tons)	335,600	203,401	129,124	211,914	131,809
% of Commercial harvest	77%	40%	58%	42%	21%
Average Realised Price per Ton (USD**)	184	125	164	166	212
Year-on-year change		-32%	31%	31%	28%
Land Holding (thousand hectares)	2008	2009	2010	2011	2012
Land under Control	317	320	328	318	308
Year-on-Year change, %		1%	2%	-3%	-3%
Land in Full Ownership	95	216	250	260	250
Year-on-Year change, %		127%	16%	4%	-4%
Land in Ownership Registration Process	214	75	30	18	19
Year-on-Year change, %		-65%	-60%	-40%	3%
Land in Long Term Lease	8	39	48	40	40
Year-on-Year change, %		381%	23%	-17%	-1%

* The 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>	207,669,445	<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 2012 Black Earth Farming had about 8,000 shareholders, compared to 8,600 at year end 2011. The 5 largest shareholders accounted for 71.2% of the number of shares and voting rights compared to 62.9% in 2011.

Trading

A total of 41.0 million SDRs were traded during the period 1 January 2012–31 December 2012, corresponding to a value of SEK 387.5 million. On average 149 thousand SDRs were traded each business day, corresponding to an average value per day of SEK 2.3 million.

Market Capitalization

Black Earth Farming's market capitalization at 31 December 2012 was SEK 1,838 million compared to SEK 1,725 million at 31 December 2011.

2012 Rights Issue

On 13 November 2012 an Extraordinary General Meeting authorised the Board of Directors to carry out a SEK 530 million rights issue. The issue was successfully completed in December 2012 where 83.1 million new SDRs were issued for SEK 6.38 per SDR. Following the issue the total number of outstanding shares (represented by SDRs) and votes were 207.7 million.

Analysts Covering Black Earth Farming

Pareto Securities

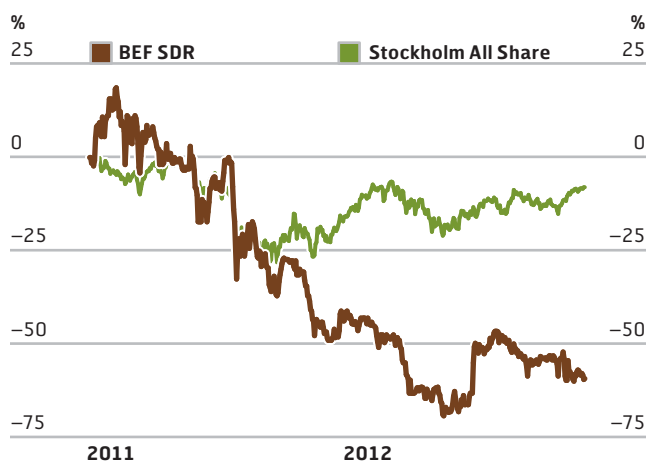
Sergej Kazatchenko , tel: +46-8-402 50 00

**D1: BEF 2011–2012 share price (in SEK)
and monthly average turnover (in SEK Million)**



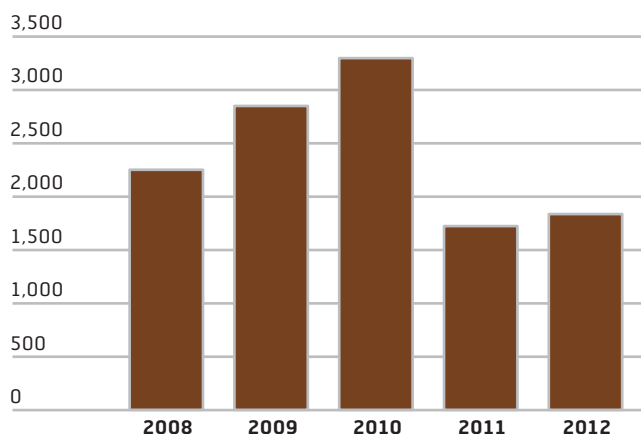
Source: NASDAQ OMX

**D2: BEF 2011–2012 share performance
vs index (in %)**



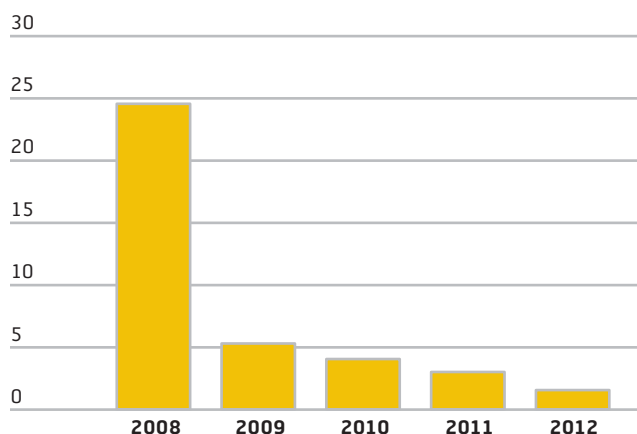
Source: NASDAQ OMX

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 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 Pension Funds	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

T2: 5 largest shareholders at 31 December 2012

Owner	Holding, Shares/SDRs	Holding, %
1 Investment AB Kinnevik	51,811,828	24.9%
2 Vostok Nafta Investment Ltd	51,481,173	24.8%
3 Alecta Pension Funds	18,569,333	8.9%
4 Länsförsäkringar Funds	17,588,072	8.5%
5 Danske Invest Funds	8,334,144	4.0%
5 largest owners	147,784,550	71.2%
Other, approx 8,000 shareholders	59,884,895	28.8%
Total outstanding	207,669,445	100.0%

Source: Euroclear Sweden share registry & shareholders' reference

A vibrant field of sunflowers with bright yellow petals and dark brown centers, set against a background of green foliage. The sunflowers are in various stages of bloom, creating a dense and colorful scene.

Black Earth Farming Limited and Subsidiaries

Consolidated Financial Statements

as at and for the year ended 31 December 2012

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Statement of management responsibilities

For the preparation and approval of the consolidated financial statements for the year ended 31 December 2012

The Board of Directors is responsible for preparing the financial statements in accordance with applicable law and regulations.

Company law requires the Board of Directors to prepare financial statements for each financial year. Under that law the Board of Directors has elected to prepare the financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union. The financial statements are required by law to give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period.

International Accounting Standard 1 requires that financial statements present fairly for each financial year the Group's financial position, financial performance and cash flows. This requires the faithful representation of the effects of transactions, other events and conditions in accordance with the definitions and recognition criteria for assets, liabilities, income and expenses set out in the International Accounting Standards Board's 'Framework for the preparation and presentation of financial statements'. In virtually all circumstances, a fair presentation will be achieved by compliance with all applicable IFRSs. However, Board of Directors is also required to:

- Properly select and apply accounting policies;
- Present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;

- Provide additional disclosures when compliance with the specific requirements in IFRSs are insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance; and
- Make an assessment of the company's ability to continue as a going concern.

The Board of Directors is responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the Group and enable them to ensure that the financial statements comply with the Companies (Jersey) Law 1991. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

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.

The financial statements were approved by the Board of Directors and authorized for issue on 12 April 2013.

Vigo Carlund
Chairman of the Board

Alex Gersh
Non-Executive Director

Poul Schroeder
Non-Executive Director

Richard Warburton
Executive Director and CEO

Per Brilioth
Non-Executive Director

Henrik Persson
Non-Executive Director

Magnus Unger
Non-Executive Director

Independent Auditor's Report

To the shareholders 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 2012, 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.

Board of Directors' Responsibility for the Consolidated Financial Statements

The Board of Directors is 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 Board of 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 Board of 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 31 December 2012, 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.

12 April 2013

Srbuhi Hakobyan
For and on behalf of Deloitte CIS
Chartered Accountant and Recognized Auditor
Moscow, Russia

Independent Auditor's Report

To the shareholders 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 2012, 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.

Board of Directors' Responsibility for the Consolidated Financial Statements

The Board of 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 Board of 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 consoli-

dated 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 Board of 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 present fairly, in all material respects, the financial position of Black Earth Farming Limited and its subsidiaries as at 31 December 2012, and of their financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards.

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.

Stockholm, Sweden

12 April 2013

Deloitte AB

Svante Forsberg
Authorized Public Accountant

Consolidated Statement of Comprehensive Income/(Loss)

For the year ended 31 December 2012

In thousands of	Notes	RUR 12m. 2012	RUR 12m. 2011	USD* 12m. 2012	USD* 12m. 2011
Continuing operations					
Revenue		4,458,456	2,067,053	146,792	68,056
Gain on revaluation of biological assets.....		2,413,584	516,066	79,466	16,991
Change in net realizable value of agricultural produce after harvest.....		92,483	(83,786)	3,045	(2,759)
Total revenue and gains.....	7	6,964,523	2,499,333	229,303	82,288
Cost of sales.....	8	(5,284,958)	(2,413,483)	(174,003)	(79,461)
Gross profit/(loss).....		1,679,565	85,850	55,300	2,827
Distribution expenses.....	9	(469,315)	(271,485)	(15,452)	(8,938)
General and administrative expenses.....	10	(630,820)	(575,941)	(20,769)	(18,962)
Taxes other than income.....	12	(75,912)	(59,525)	(2,499)	(1,960)
Government grants		52,625	62,459	1,733	2,056
(Impairment)/reversal of impairment on property, plant and equipment.....	13	(1,496)	1,413	(49)	47
Other income and (expenses), net.....	14	50,754	(55,667)	1,671	(1,833)
Operating profit/(loss)		605,401	(812,896)	19,935	(26,763)
Financial income.....	15	26,793	36,634	882	1,206
Financial expenses.....	15	(387,724)	(358,224)	(12,767)	(11,794)
Gain/(loss) on foreign exchange differences.....		42,936	(168,210)	1,413	(5,538)
Profit/(loss) before income tax.....		287,406	(1,302,696)	9,463	(42,889)
Income tax expense.....	17	(69,881)	(39,412)	(2,302)	(1,299)
Profit/(loss) for the year		217,525	(1,342,108)	7,161	(44,188)
Other comprehensive income					
Gain on hedging instruments entered into for cash flow hedges.....	29	14,148	–	466	–
Other comprehensive income for the year.....		14,148	–	466	–
Total comprehensive income/(loss) for the year attributable to owners of the parent.....		231,673	(1,342,108)	7,627	(44,188)
Earnings/(loss) per share (amounts are indicated in)					
		RUR	RUR	USD*	USD*
Earnings/(loss) per share, basic and diluted.....	26	1.68	(10.77)	0.06	(0.35)

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.

* The functional and presentation currency for Black Earth Farming is RUR. For the convenience of the users of this report USD amounts are also presented – see note 2 (d).

Consolidated Statement of Financial Position

As at 31 December 2012

In thousands of	Notes	RUR 31-Dec-12	RUR 31-Dec-11	USD* 31-Dec-12	USD* 31-Dec-11
ASSETS					
Non-current assets					
Property, plant and equipment.....	18	6,014,175	6,019,548	198,013	198,189
Intangible assets.....	19	2,441	6,845	80	225
Biological assets (livestock).....	20	26,193	23,514	862	774
Other non-current assets.....	21	89,060	88,646	2,932	2,919
Deferred tax assets.....	17	32,147	111,766	1,058	3,680
Total non-current assets.....		6,164,016	6,250,319	202,945	205,787
Current assets					
Inventories.....	22	2,218,935	1,910,709	73,057	62,909
Biological assets (crop production).....	20	1,006,128	532,598	33,126	17,535
Trade and other receivables.....	23	687,302	474,074	22,629	15,609
Cash and cash equivalents.....	24	2,638,934	985,452	86,885	32,445
		6,551,299	3,902,833	215,697	128,498
Assets classified as held for sale.....	25	107,153	–	3,528	–
Total current assets.....		6,658,452	3,902,833	219,225	128,498
Total assets.....		12,822,468	10,153,152	422,170	334,285
EQUITY AND LIABILITIES					
Equity					
Share capital.....		58,349	32,921	1,921	1,084
Share premium.....		13,621,100	11,275,731	448,466	371,246
Reserves.....		206,060	178,189	6,784	5,867
Accumulated deficit.....		(4,980,396)	(5,197,921)	(163,977)	(171,138)
Total equity attributable to owners of the parent.....	26	8,905,113	6,288,920	293,194	207,059
LIABILITIES					
Non-current liabilities					
Non-current loans and borrowings.....	27	3,161,767	3,265,713	104,099	107,521
Deferred tax liabilities.....	17	25,945	42,153	854	1,388
Total non-current liabilities.....		3,187,712	3,307,866	104,953	108,909
Current liabilities					
Current loans and borrowings.....	27	172,665	165,166	5,685	5,438
Trade and other payables.....	28	556,978	391,200	18,338	12,879
Total current liabilities.....		729,643	556,366	24,023	18,317
Total liabilities.....		3,917,355	3,864,232	128,976	127,226
Total equity and liabilities.....		12,822,468	10,153,152	422,170	334,285

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.

* The functional and presentation currency for Black Earth Farming is RUR. For the convenience of the users of this report USD amounts are also presented – see note 2 (d).

Consolidated Statement of Changes in Equity

For the year ended 31 December 2012

In thousands of	RUR	RUR	RUR	RUR	RUR	RUR
	Share capital	Share premium	Equity-settled employee benefits reserve	Cash-flow hedging reserve	Accumulated deficit	Total equity attributable to owners of the parent
Balance at 1 January 2011	32,921	11,275,731	152,556	–	(3,855,813)	7,605,395
Loss for the year	–	–	–	–	(1,342,108)	(1,342,108)
Recognition of share-based payments	–	–	25,633	–	–	25,633
Balance at 31 December 2011	32,921	11,275,731	178,189	–	(5,197,921)	6,288,920
Balance at 1 January 2012	32,921	11,275,731	178,189	–	(5,197,921)	6,288,920
Profit for the period	–	–	–	–	217,525	217,525
Gain on hedging instruments entered into for cash flow hedges, net of 2,830 RUR'000 of income tax (note 29) .	–	–	–	14,148	–	14,148
Total comprehensive income for the year	–	–	–	14,148	217,525	231,673
Shares issued (note 26 (a))	25,428	2,345,369	–	–	–	2,370,797
Recognition of share-based payments (note 26 (d))	–	–	13,723	–	–	13,723
Balance as at 31 December 2012	58,349	13,621,100	191,912	14,148	(4,980,396)	8,905,113

In thousands of	USD*	USD*	USD*	USD*	USD*	USD*
	Share capital	Share premium	Equity-settled employee benefits reserve	Cash-flow hedging reserve	Accumulated deficit	Total equity attributable to owners of the parent
Balance at 1 January 2011	1,084	371,246	5,023	–	(126,950)	250,403
Loss for the period	–	–	–	–	(44,188)	(44,188)
Recognition of share-based payments	–	–	844	–	–	844
Balance at 31 December 2011	1,084	371,246	5,867	–	(171,138)	207,059
Balance at 1 January 2012	1,084	371,246	5,867	–	(171,138)	207,059
Profit for the period	–	–	–	–	7,161	7,161
Gain on hedging instruments entered into for cash flow hedges, net of 93 USD'000* of income tax (note 29)	–	–	–	466	–	466
Total comprehensive income for the year	–	–	–	466	7,161	7,627
Shares issued (note 26 (a))	837	77,220	–	–	–	78,057
Recognition of share-based payments (note 26 (d))	–	–	451	–	–	451
Balance as at 31 December 2012	1,921	448,466	6,318	466	(163,977)	293,194

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.

* The functional and presentation currency for Black Earth Farming is RUR. For the convenience of the users of this report USD amounts are also presented – see note 2 (d).

Consolidated Statement of Cash Flows

For the year ended 31 December 2012

In thousands of	Notes	RUR 12m. 2012	RUR 12m. 2011	USD* 12m. 2012	USD* 12m. 2011
CASH FLOWS FROM OPERATING ACTIVITIES					
Profit/ (loss) for the period		217,525	(1,342,108)	7,161	(44,188)
Adjustments for:					
Income tax expense.....		69,881	39,412	2,302	1,299
Depreciation and amortization.....		574,685	425,401	18,920	14,006
Bad debt expense.....		41,837	17,264	1,377	568
Foreign exchange (gain)/ loss		(42,936)	168,210	(1,414)	5,538
Financial income.....		(26,793)	(36,634)	(882)	(1,206)
Financial expense.....		374,870	345,203	12,344	11,366
(Gain)/loss on disposal of property, plant and equipment and intangible assets.....		(37,077)	1,047	(1,221)	34
Gain on revaluation of investment property		(64,569)	-	(2,126)	-
Warrant expense		13,723	25,633	451	844
Loss on land write-off.....		-	9,832	-	324
Impairments/ (reversal) of impairment	13	1,496	(1,413)	49	(47)
Change in value of biological assets and inventory.....	7	(2,506,067)	(432,280)	(82,512)	(14,232)
Effect of revaluations on cost of sales.....	8	2,004,360	448,414	65,992	14,764
		620,935	(332,019)	20,441	(10,930)
Movements in working capital:					
(Increase)/decrease in inventories		211,996	(588,384)	6,980	(19,372)
Increase in biological assets		(462,420)	(139,927)	(15,224)	(4,607)
Increase in trade and other receivables		(253,799)	(41,100)	(8,356)	(1,353)
Increase in trade and other payables		165,555	208,156	5,451	6,853
Cash from/(used) in operations.....		282,267	(893,274)	9,292	(29,409)
Interest paid.....		(365,512)	(330,202)	(12,034)	(10,872)
Income tax paid		(8,880)	(380)	(291)	(13)
Net cash used in operating activities		(92,125)	(1,223,856)	(3,033)	(40,294)
CASH FLOWS FROM INVESTING ACTIVITIES					
Interest received		27,317	42,648	899	1,404
Acquisition of land plots.....		(11,829)	(45,906)	(389)	(1,511)
Acquisition of property, plant and equipment		(651,395)	(556,605)	(21,447)	(18,324)
Proceeds from disposal of property, plant and equipment		84,513	16,445	2,783	541
Acquisition of intangible assets		(2,951)	(4,367)	(97)	(144)
Proceeds from disposal of investments.....		-	332	-	11
Net cash used in investing activities.....		(554,345)	(547,453)	(18,251)	(18,023)
CASH FLOWS FROM FINANCING ACTIVITIES					
Proceeds from the issue of shares.....		2,370,797	-	78,057	-
Proceeds from the issue/selling of bonds.....	27	183,099	87,303	6,028	2,874
Repurchase of bonds		(306,487)	(268,330)	(10,091)	(8,835)
Net cash from/(used in) financing activities		2,247,409	(181,027)	73,994	(5,961)
Net increase/ (decrease) in cash and cash equivalents		1,600,939	(1,952,336)	52,710	(64,278)
Cash and cash equivalents at beginning of year	24	985,452	2,982,817	32,445	98,207
Effect of exchange rate fluctuations on cash and cash equivalents		52,543	(45,029)	1,730	(1,484)
Cash and cash equivalents at end of the year	24	2,638,934	985,452	86,885	32,445

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.

* The functional and presentation currency for Black Earth Farming is RUR. For the convenience of the users of this report USD amounts are also presented – see note 2 (d).

Notes to the Consolidated Financial Statements

For the year ended 31 December 2012

1 Background

(a) Organization 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 35).

The Company's registered office is 8 Church Street, St. Helier, Jersey, JE4 0SG, Channel Islands, registration 89973.

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.

(b) Russian business environment

Emerging markets such as Russian Federation are subject to different risks than more developed markets, including economic, political and social, and legal and legislative risks. Laws and regulations affecting businesses in Russian Federation continue to change rapidly, tax and regulatory frameworks are subject to varying interpretations. The future economic direction of Russian Federation is heavily influenced by the fiscal and monetary policies adopted by the government, together with developments in the legal, regulatory, and political environment.

Because Russian Federation produces and exports large volumes of oil and gas, its economy is particularly sensitive to the price of oil and gas on the world market.

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 2012 of RUR 30.3727 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 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 recognized in profit or loss as incurred.

At the acquisition date, the identifiable assets acquired and the liabilities assumed are recognized 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 recognized 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 recognized 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 recognized, to reflect new information obtained about facts and circumstances that existed as of the acquisition

* The functional and presentation currency for Black Earth Farming is RUR. For the convenience of the users of this report USD amounts are also presented – see note 2 (d).

date that, if known, would have affected the amounts recognized 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 recognized 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 recognized directly in profit and loss in the consolidated statement of comprehensive income. An impairment loss recognized 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 functional and 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 recognized 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 recognized 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.

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 amortized cost using the effective interest method, less any impairment. Interest income is recognized by applying the effective interest rate, except for short-term receivables when the recognition of interest would be immaterial.

Cash flow hedge accounting

Hedges of foreign exchange risk on firm commitments are accounted for as cash flow hedges. At the inception of the hedge relation-

ship, the entity documents the relationship between the hedging instrument and the hedged item, along with its risk management objectives and its strategy for undertaking various hedge transactions. Furthermore, at the inception of the hedge and on an ongoing basis, the Group documents whether the hedging instrument is highly effective in offsetting changes in fair values or cash flows of the hedged item attributable to the hedged risk.

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognized in other comprehensive income and accumulated under the heading of cash flow hedging reserve. The gain or loss relating to the ineffective portion is recognized immediately in profit or loss, and is included in the 'other gains and losses' line item.

Amounts previously recognized in other comprehensive income and accumulated in equity are reclassified to profit or loss in the periods when the hedged item is recognized in profit or loss, in the same line as the recognized hedged item. However, when the hedged forecast transaction results in the recognition of a non-financial asset or a non-financial liability, the gains and losses previously recognized in other comprehensive income and accumulated in equity are transferred from equity and included in the initial measurement of the cost of the non-financial asset or non-financial liability.

Hedge accounting is discontinued when the Group revokes the hedging relationship, when the hedging instrument expires or is sold, terminated, or exercised, or when it no longer qualifies for hedge accounting. Any gain or loss recognized in other comprehensive income and accumulated in equity at that time remains in equity and is recognized when the forecast transaction is ultimately recognized in profit or loss. When a forecast transaction is no longer expected to occur, the gain or loss accumulated in equity is recognized immediately in profit or loss.

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 amortized 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.

(f) Property, plant and equipment and land

Owned assets

Items of property and equipment are measured at cost less accumulated depreciation and impairment losses. Land is not depreciated.

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 recognized net in other income in profit and loss.

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Repairs and maintenance

The cost of replacing part of an item of property, plant and equipment is recognized 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 recognized in profit or loss as incurred.

Depreciation

Depreciation is recognized 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 recognized on a prospective basis.

(g) Investment property

Investment properties are properties held to earn rentals and/or for capital appreciation. Investment properties are measured initially at cost, including transaction costs. Subsequent to initial recognition, investment properties are measured at fair value. Gains and losses arising from changes in the fair value of investment properties are included in profit or loss in the period in which they arise.

An investment property is derecognized upon disposal or when the investment property is permanently withdrawn from use and no future economic benefits are expected from the disposal. Any gain or loss arising on derecognition of the property (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in profit or loss in the period in which the property is derecognized.

(h) Non-current assets held for sale

Non-current assets and disposal groups are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the non-current asset (or disposal group) is available for immediate sale in its present condition. Management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification.

When the Group is committed to a sale plan involving loss of control of a subsidiary, all of the assets and liabilities of that subsidiary are classified as held for sale when the criteria described above are met, regardless of whether the Group will retain a non-controlling interest in its former subsidiary after the sale.

Non-current assets (and disposal groups) classified as held for sale are measured at the lower of their previous carrying amount and fair value less costs to sell.

(i) Intangible assets

Intangible assets, that are acquired by the Group, which have finite useful lives, are measured at cost less accumulated amortization 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, are recognized in profit or loss as incurred.

Amortization is recognized 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.

(j) 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 recognized 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 the initial cost outlay, biological assets are valued on the basis of actual costs.

At point of harvest, which for each crop is deemed 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 realizable value of agricultural produce at the end of the reporting period. Changes in net realizable value are recognized 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 recognized 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 realizable 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 recognized 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.

(k) 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 amortized 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 recognized in the income statement. An impairment loss is reversed if the reversal can be related objectively to an event occurring after the impairment loss was recognized. For financial assets measured at amortized cost and availa-

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ble-for-sale financial assets that are debt securities, the reversal is recognized 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 recognized if the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. Impairment losses are recognized in the income statement. Impairment losses recognized 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 recognized 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 amortization, if no impairment loss had been recognized.

(l) Defined contribution pension plans

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

(m) 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 recognized 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.

(n) Provisions

A provision is recognized 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.

(o) Income tax

Income tax for the year comprises current and deferred tax. Income tax is recognized 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 recognized 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 recognized 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 recognized 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 recognized to the extent that it is probable that future taxable profits will be available against which the temporary difference can be utilized. 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.

(p) 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 recognized 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 recognized 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.

(q) 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 recognized in profit and loss in the period in which they are incurred.

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(r) Government grants

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

(s) 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 recognized 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 recognized immediately in profit and loss.

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

(t) 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.

(u) Standards and Interpretations effective in the current period

The following new and revised Standards and Interpretations are effective for 2012. 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 12 "Income taxes"

- Amendments to IFRS 1 "First-time adoption of international financial reporting standards"
- Amendments to IFRS 7 "Financial instruments: disclosure"

(v) New Standards and Interpretations not yet adopted

A number of new Standards and amendments to Standards were not yet effective for the year ended 31 December 2012, and have not been applied in these consolidated financial statements.

Standards	Will be applied for financial years beginning:
IAS 1 (Amended) "Presentation of financial statements"	1 July 2012 or later
IAS 16 (Amended) "Property, Plant and Equipment"	1 January 2013 or later
IAS 27 (Amended) "Separate financial statements"	1 January 2013 or later
IAS 28 (Amended) "Investments in associates and joint ventures"	1 January 2013 or later
IAS 32 (Amended) "Financial instruments: presentation"	1 January 2014 or later
IAS 34 (Amended) "Interim Financial Reporting"	1 January 2013 or later
IFRS 1 (Amended) "First-time adoption of international financial reporting standards"	1 January 2013 or later
IFRS 7 (Amended) "Financial instruments: disclosure"	1 January 2013 or later
IFRS 9 (Amended) "Financial instruments"	1 January 2015 or later
IFRS 10 (Amended) "Consolidated financial statements"	1 January 2013 or later
IFRS 11 (Amended) "Joint arrangements"	1 January 2013 or later
IFRS 12 (Amended) "Disclosure of interests in other entities"	1 January 2013 or later
IFRS 13 "Fair value measurement"	1 January 2013 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 32.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized 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.

As part of the process of valuation of biological assets the management makes the following estimations: expected crop yield; expected costs to harvest; expected wastage percentage; expected selling expenses to be incurred in future.

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 2012 amounted to RUR 1,006,128 thousand (USD* 33,126 thousand).

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(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 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 recognize 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 stable profitability during several years.

5 Prior year changes

Reclassifications

In 2012 the Group conducted a detailed analysis of its expenditures with a view to improve classification of such expenditures between cost of sales and general and administrative expenses. As a result of such analysis, it was concluded that a portion of general and administrative expenses related to security measures and internal warehouses should be presented as cost of sales.

Due to this change certain comparative information, presented in the consolidated financial statements for the year ended 31 December 2011, 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>Consolidated Statement of Comprehensive Income for the year ended 31 December 2011</i>			
Cost of sales	2,332,213	2,413,483	81,270
General and administrative expenses	657,211	575,941	(81,270)
In thousands of USD*	Before reclassification	Recast	Difference
<i>Consolidated Statement of Comprehensive Income for the year ended 31 December 2011</i>			
Cost of sales	76,785	79,461	2,676
General and administrative expenses	21,638	18,962	(2,676)

6 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 recognizes a separate segment related to elevator activity. The Elevator segment consists of two legal entities: Agroterminal (with working elevator containing 60 tons of capacity) and Nedvizhimost' (with three elevators containing 115 tons of capacity). The elevators mainly work for internal needs, however it provides services for third parties if there are spare capacities.

Land plots, classified as assets held for sale are located in Samara region and attributed to Tambov region.

The management company is located in Moscow. It sets the general policies for all entities, collects the data and controls implementation of all decisions 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 maker – senior management headed by the CEO of Black Earth Farming Limited.

(a) Segment revenues and results

In thousands of	RUR Revenue from external sales 12 m. 2012	RUR Inter-segment revenue 12 m. 2012	RUR Depreciation and amortisation 12 m. 2011	RUR Net result 12 m. 2011
Agricultural companies				
– Voronezh region	1,061,364	61,747	131,842	206,501
– Kursk region	1,318,221	53,294	134,346	472,966
– Lipetsk region	1,346,746	23,018	151,442	290,257
– Tambov region	723,708	85,523	111,253	174,692
Elevators	8,417	254,039	34,846	(11,600)
Management company (Moscow)	–	47,611	12,019	(381,540)
Total	4,458,456	525,232	575,748	751,276
General administrative costs including directors' salaries				(222,864)
Other income and expenses				76,989
Net financial expenses and gain on foreign exchange differences				(317,995)
Profit before income tax				287,406

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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	(619,073)
General administration costs including directors' salaries				(188,380)
Other income and expenses				(5,443)
Net financial expenses and gain on foreign exchange differences				(489,800)
Loss before income tax				(1,302,696)

In thousands of	USD* Revenue from external sales 12 m. 2012	USD* Inter-segment revenue 12 m. 2012	USD* Depreciation and amortisation 12 m. 2012	USD* Net result 12 m. 2012
Agricultural companies				
– Voronezh region	34,944	2,033	4,341	6,799
– Kursk region	43,402	1,755	4,423	15,572
– Lipetsk region	44,341	758	4,986	9,557
– Tambov region	23,828	2,816	3,663	5,752
Elevators	277	8,364	1,147	(382)
Management company (Moscow)	–	1,568	396	(12,562)
Total	146,792	17,294	18,956	24,736
General administrative costs including directors' salaries				(7,338)
Other income and expenses				2,535
Net financial expenses and gain on foreign exchange differences				(10,470)
Profit before income tax				9,463

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	13,865	2,509	3,127	954
– Kursk region	17,016	861	2,685	(2,838)
– Lipetsk region	22,280	1,643	2,677	(3,936)
– Tambov region	10,569	332	2,612	(5,659)
Elevators	2,436	9,199	2,544	(331)
Management company (Moscow)	1,890	1,569	363	(8,574)
Total	68,056	16,113	14,008	(20,384)
General administrative costs including directors' salaries				(6,202)
Other income and expenses				(177)
Net financial expenses and gain on foreign exchange differences				(16,126)
Loss before income tax				(42,889)

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 general administration costs including director salaries, other income and expenses and finance costs (net).

(b) Segment assets

In thousands of	RUR 31-Dec-12	RUR 31-Dec-11	USD* 31-Dec-12	USD* 31-Dec-11
Agricultural companies				
– Voronezh region	1,950,299	1,825,922	64,212	60,117
– Kursk region	2,637,392	2,241,161	86,834	73,789
– Lipetsk region	2,253,482	2,123,407	74,194	69,912
– Tambov region	1,685,859	1,229,073	55,506	40,466
Elevators	1,590,226	1,670,075	52,357	54,986
Management company (Moscow)	894,609	571,647	29,454	18,821
Total segment assets	11,011,867	9,661,285	362,557	318,091
Corporate assets	1,810,601	491,867	59,613	16,194
Consolidated total assets	12,822,468	10,153,152	422,170	334,285

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

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(c) Revenues from major products

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

In thousands of	RUR	RUR	USD*	USD*
	12 m. 2012	12 m. 2011	12 m. 2012	12 m. 2011
Wheat	1,734,480	1,090,218	57,105	35,894
Spring rape seed	662,216	202,086	21,803	6,654
Corn	637,246	5,937	20,981	195
Sunflowers	519,442	448,518	17,102	14,767
Soya	339,933	24,940	11,192	821
Barley	305,369	171,848	10,054	5,658
Sugar-beet	198,016	67,889	6,520	2,235
Milk and meat	33,616	32,835	1,107	1,081
Other crops and waste grains	13,316	3,630	438	121
Other goods and services	14,822	19,152	490	630
	4,458,456	2,067,053	146,792	68,056

(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 the major customer during 2012 and 2011 was equal to RUR 1,032,821 thousand (USD* 34,005 thousand) and RUR 282,378 thousand (USD* 9,297 thousand) which represents approximately 23 and 20 percent of the total annual grain sales revenue, respectively.

Revenue from this customer during 2012 and 2011 was reported by segments as follows:

In thousands of	RUR	RUR	USD*	USD*
	12 m. 2012	12 m. 2011	12 m. 2012	12 m. 2011
Voronezh region	305,862	73,170	10,070	2,409
Kursk region	280,691	–	9,242	–
Lipetsk region	254,433	128,604	8,377	4,234
Tambov region	191,835	80,604	6,316	2,654
	1,032,821	282,378	34,005	9,297

7 Revenue and gains

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

In thousands of	RUR	RUR	USD*	USD*
	12 m. 2012	12 m. 2011	12 m. 2012	12 m. 2011
Revenue from sales of crop production	4,410,018	2,015,066	145,197	66,345
Revenue from sales of milk and meat	33,616	32,835	1,107	1,081
Revenue from sales of other goods and services	14,822	19,152	488	630
Gain on revaluation of biological assets	2,413,584	516,066	79,466	16,991
Change in net realizable value of agricultural produce after harvest	92,483	(83,786)	3,045	(2,759)
	6,964,523	2,499,333	229,303	82,288

In thousands of	RUR	RUR	USD*	USD*
	12 m. 2012	12 m. 2011	12 m. 2012	12 m. 2011
Fair value less point-of-sale costs at date of harvest	4,848,280	2,744,801	159,626	90,371
Actual production costs	(2,433,079)	(2,215,211)	(80,107)	(72,934)
Revaluation of biological assets to agricultural produce	2,415,201	529,590	79,519	17,437

Fair value of 2011 sunflower to be harvested less point-of-sale costs	–	9,767	–	322
Actual production costs	–	(24,047)	–	(792)
Revaluation of agricultural produce in the process of harvesting	–	(14,280)	–	(470)

Revaluation of dairy and meat livestock	(1,617)	756	(53)	24
Gain on revaluation of biological assets to agricultural produce	2,413,584	516,066	79,466	16,991

8 Cost of sales

In thousands of	RUR	RUR	USD*	USD*
	12 m. 2012	12 m. 2011	12 m. 2012	12 m. 2011
Materials	2,107,077	1,121,150	69,374	36,912
Depreciation and amortization charge	499,080	336,677	16,432	11,085
Salary and social taxes	302,901	229,512	9,973	7,557
Third party crop handling services	162,752	99,672	5,358	3,282
Crops not harvested due to damages on fields	39,037	41,761	1,285	1,375
Operating leases (note 31)	39,222	30,371	1,291	1,000
Taxes	40,965	28,858	1,349	950
Repair expenses	27,518	11,295	906	372
Other expenses	62,046	65,773	2,043	2,164
Effect of revaluations (biological assets and change in net realizable value)	2,004,360	448,414	65,992	14,764
	5,284,958	2,413,483	174,003	79,461

* The functional and presentation currency for Black Earth Farming is RUR. For the convenience of the users of this report USD amounts are also presented – see note 2 (d).

9 Distribution expenses

In thousands of	RUR 12 m. 2012	RUR 12 m. 2011	USD* 12 m. 2012	USD* 12 m. 2011
Transportation and delivery services	274,647	114,951	9,043	3,784
Depreciation and amortization charge	59,422	66,449	1,956	2,188
Salary and social taxes	43,069	30,503	1,418	1,004
Materials	26,392	16,183	869	533
Storage and other elevator's services	21,822	9,989	718	329
Other services	43,963	33,410	1,448	1,100
	469,315	271,485	15,452	8,938

10 General and administrative expenses

In thousands of	RUR 12 m. 2012	RUR 12 m. 2011	USD* 12 m. 2012	USD* 12 m. 2011
Personnel expenses	329,965	307,940	10,864	10,139
Consulting and audit	163,924	101,857	5,397	3,355
Office and administration expenses	46,321	54,260	1,525	1,786
Travelling expenses	37,468	23,890	1,234	787
Rent expenses	22,909	20,958	754	690
Depreciation and amortization	13,038	22,275	429	733
Termination payments	3,284	32,248	108	1,061
Other services	13,911	12,513	458	411
	630,820	575,941	20,769	18,962

11 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. 2012	RUR 12 m. 2011	USD* 12 m. 2012	USD* 12 m. 2011
<i>General and administrative expenses</i>				
Salaries	291,974	303,342	9,613	9,987
Salary related expenses	41,275	36,846	1,359	1,213
<i>Cost of sales and work in progress</i>				
Salaries	302,330	235,102	9,954	7,741
Salary related expenses	68,631	53,896	2,260	1,774
<i>Distribution expenses</i>				
Salaries	33,414	22,761	1,100	749
Salary related expenses	9,655	7,742	318	255
	747,279	659,689	24,604	21,719

Personnel costs for 2012 and 2011 include share-based payment expense (see note 26 (d)) granted to employees of RUR 13,723 thousand (USD* 451 thousand) and RUR 25,633 thousand (USD* 844 thousand) correspondingly.

Average and total number of employees	12 m. 2012	Of whom men	12 m. 2011	Of whom men
Parent (Jersey)	18	94%	7	100%
Subsidiaries (Russia)	1,995	79%	1,822	77%
Group total	2,013	79%	1,829	77%

The total number of Group employees as at 31 December 2012 was 2,067 (31 December 2011: 1,816).

Proportion of women in management

	2012 Percentage of women	2011 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	0%	27%

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 Labor 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% at annual taxable income less 512 RUR'000 and additional 10% at taxable income more 512 RUR'000). 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 2012 and 2011 was equal to RUR 116,277 thousand (USD* 3,828 thousand) and RUR 66,473 thousand (USD* 2,188 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 more 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.

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12 Taxes other than income

In thousands of

	RUR 12 m. 2012	RUR 12 m. 2011	USD* 12 m. 2012	USD* 12 m. 2011
Property tax	58,125	51,878	1,914	1,708
Unrecoverable VAT	4,293	5,158	141	170
Land tax	2	1,330	-	44
Other taxes	13,492	1,159	444	38
	75,912	59,525	2,499	1,960

13 Impairment of property, plant and equipment

In thousands of

	RUR 12 m. 2012	RUR 12 m. 2011	USD* 12 m. 2012	USD* 12 m. 2011
Reversal of impairment of PPE	-	3,105	-	102
Provision for land	(1,496)	(1,692)	(49)	(55)
	(1,496)	1,413	(49)	47

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.

14 Other income and expenses

In thousands of

	RUR 12 m. 2012	RUR 12 m. 2011	USD* 12 m. 2012	USD* 12 m. 2011
Revaluation of investment property	64,569	-	2,126	-
Result on disposal of PPE	37,077	(1,042)	1,221	(34)
Fines and penalties received	3,782	3,292	125	108
Write-up/ (off) crops from warehouses	2,177	(16,765)	72	(552)
Bad debt provision	(17,969)	(17,264)	(592)	(568)
Donations to an educational organization in Lipetsk region	(17,905)	(2,967)	(590)	(98)
Gains and losses related to disposal of other assets	(3,557)	(390)	(117)	(13)
Write-off of land	-	(9,832)	-	(324)
Other income and expenses	(17,420)	(10,699)	(574)	(352)
	50,754	(55,667)	1,671	(1,833)

15 Financial income and expenses

In thousands of

	RUR 12 m. 2012	RUR 12 m. 2011	USD* 12 m. 2012	USD* 12 m. 2011
<i>Financial Income</i>				
Interest income on deposits	26,793	36,634	882	1,206
	26,793	36,634	882	1,206
<i>Financial Expenses</i>				
Bond interest	(374,334)	(344,696)	(12,326)	(11,349)
Loss from repurchase of bonds	(12,854)	(13,021)	(423)	(429)
Interest expense	(536)	(507)	(18)	(16)
	(387,724)	(358,224)	(12,767)	(11,794)
Net financial items	(360,931)	(321,590)	(11,885)	(10,588)

* The functional and presentation currency for Black Earth Farming is RUR. For the convenience of the users of this report USD amounts are also presented – see note 2 (d).

16 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 2012, 9 main of 39 Group's local operating companies were granted the status of agricultural producers thereby enabling them to be exempt from corporate income tax.

In October 2012, an amendment to the Tax Code was enacted to set the income tax rate for agricultural producers at 0% in perpetuity. Before the amendment, agricultural entities would have been subject to an 18% income tax rate during the period 2013 to 2015 and 20% subsequently.

In thousands of	RUR 12 m. 2012	RUR 12 m. 2011	USD* 12 m. 2012	USD* 12 m. 2011
Current tax expense	6,464	291	213	10
Deferred tax expense	63,417	39,121	2,089	1,289
Income tax expense	69,881	39,412	2,302	1,299

The income tax reconciliation is presented below:

In thousands of	RUR 12 m. 2012	RUR 12 m. 2011	USD* 12 m. 2012	USD* 12 m. 2011
Profit/(Loss) before income tax	287,406	(1,302,703)	9,463	(42,890)
Income tax at applicable tax rate of 20%	57,481	(260,541)	1,893	(8,578)
Effect of income/(loss) at 10% and 0% tax rate	(82,822)	156,386	(2,727)	5,149
Effect of non-deductible expenses and other permanent differences	66,050	1,048	2,175	36
Use of loss carry forward	(6,318)	–	(208)	–
Change in unrecognized deferred tax assets	35,490	142,519	1,169	4,692
	69,881	39,412	2,302	1,299

17 Deferred tax assets and liabilities

(a) Recognized deferred tax assets and liabilities

Deferred tax assets and liabilities are attributable to the following:

In thousands of RUR	Assets		Liabilities		Net	
	31-Dec-2012	31-Dec-2011	31-Dec-2012	31-Dec-2011	31-Dec-2012	31-Dec-2011
Property, plant and equipment	6,264	37,795	(21,529)	(39,954)	(15,265)	(2,159)
Inventory	6,589	51,480	–	(481)	6,589	50,999
Trade and other receivables	3,630	12,748	(4,416)	(1,718)	(786)	11,030
Trade and other payables	15,664	9,743	–	–	15,664	9,743
Net tax assets/ (liabilities)	32,147	111,766	(25,945)	(42,153)	6,202	69,613

In thousands of USD*	Assets		Liabilities		Net	
	31-Dec-2012	31-Dec-2011	31-Dec-2012	31-Dec-2011	31-Dec-2012	31-Dec-2011
Property, plant and equipment	206	1,244	(709)	(1,315)	(503)	(72)
Inventory	216	1,695	–	(16)	216	1,679
Trade and other receivables	120	420	(145)	(57)	(25)	363
Trade and other payables	516	321	–	–	516	321
Net tax assets/ (liabilities)	1,058	3,680	(854)	(1,388)	204	2,291

Management determined that deferred tax assets relating to tax losses carried forward would be considered for recognition once the Group reaches stable profitability during several years.

(b) Unrecognised deferred tax assets

In thousands of	RUR 31-Dec-2012	RUR 31-Dec-2011	USD* 31-Dec-2012	USD* 31-Dec-2011
Deductible temporary differences	2	28	–	1
Tax loss carry forwards	178,007	142,491	5,861	4,691
	178,009	142,519	5,861	4,692

* The functional and presentation currency for Black Earth Farming is RUR. For the convenience of the users of this report USD amounts are also presented – see note 2 (d).

18 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>							
Balance as at 1 January 2011	1,863,574	2,225,319	2,622,901	361,875	33,143	42,499	7,149,311
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	132,465	7,798,257
Additions	11,829	99,248	471,199	18,649	7,444	73,912	682,281
Disposals	(49,590)	(2,874)	(1,261)	(2,765)	(2,524)	(4,422)	(63,436)
Transfers to investment property (note 25)	(42,584)	—	—	—	—	—	(42,584)
Reclassification of fixed assets	5,246	45,274	15,459	—	96	(66,075)	—
As at 31 December 2012	1,805,663	2,705,955	3,310,605	374,444	41,971	135,880	8,374,518
<i>Accumulated depreciation and impairment</i>							
Balance as at 1 January 2011	(3,629)	(190,033)	(834,025)	(175,319)	(24,050)	—	(1,227,056)
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
Impairment of PPE	—	2,453	652	—	—	—	3,105
Reversal of impairment of land	(1,692)	—	—	—	—	—	(1,692)
As at 31 December 2011	(5,321)	(335,371)	(1,191,018)	(220,074)	(26,925)	—	(1,778,709)
Depreciation charge	—	(141,177)	(395,342)	(45,193)	(4,133)	—	(585,845)
Adjustment to depreciation of disposed fixed assets	—	209	669	2,523	2,306	—	5,707
Impairment of land	(1,496)	—	—	—	—	—	(1,496)
As at 31 December 2012	(6,817)	(476,339)	(1,585,691)	(262,744)	(28,752)	—	(2,360,343)
<i>Net book value</i>							
As at 1 January 2011	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
As at 31 December 2012	1,798,846	2,229,616	1,724,914	111,700	13,219	135,880	6,014,175

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>							
Balance as at 1 January 2011	61,357	73,267	86,357	11,914	1,091	1,399	235,385
Additions	1,525	10,975	9,337	38	200	3,590	25,665
Disposals	(959)	(38)	(2,932)	(147)	(92)	(132)	(4,300)
Reclassification of fixed assets	—	224	256	—	18	(497)	1
As at 31 December 2011	61,923	84,428	93,018	11,805	1,217	4,360	256,751
Additions	389	3,269	15,514	613	245	2,434	22,464
Disposals	(1,632)	(95)	(42)	(91)	(83)	(147)	(2,090)
Transfers to investment property (note 25)	(1,402)	—	—	—	—	—	(1,402)
Reclassification of fixed assets	173	1,491	509	—	1	(2,174)	—
As at 31 December 2012	59,451	89,093	108,999	12,327	1,380	4,473	275,723
<i>Accumulated depreciation and impairment</i>							
Balance as at 1 January 2011	(119)	(6,257)	(27,460)	(5,772)	(792)	—	(40,400)
Depreciation charge	—	(4,875)	(13,039)	(1,535)	(172)	—	(19,621)
Adjustment to depreciation of disposed fixed assets	—	9	1,265	62	78	—	1,414
Impairment of PPE	—	81	20	—	—	—	101
Reversal of impairment of land	(56)	—	—	—	—	—	(56)
As at 31 December 2011	(175)	(11,042)	(39,214)	(7,245)	(886)	—	(58,562)
Depreciation charge	—	(4,647)	(13,016)	(1,489)	(135)	—	(19,287)
Adjustment to depreciation of disposed fixed assets	—	7	22	83	75	—	187
Impairment of PPE	—	—	—	—	—	—	—
Impairment of land	(48)	—	—	—	—	—	(48)
As at 31 December 2012	(223)	(15,682)	(52,208)	(8,651)	(946)	—	(77,710)
<i>Net book value</i>							
As at 1 January 2011	61,238	67,010	58,897	6,142	299	1,399	194,985
As at 31 December 2011	61,748	73,386	53,804	4,560	331	4,360	198,189
As at 31 December 2012	59,228	73,411	56,791	3,676	434	4,473	198,013

* The functional and presentation currency for Black Earth Farming is RUR. For the convenience of the users of this report USD amounts are also presented – see note 2 (d).

Land

As at 31 December 2012, the Group has effective control over 308 thousand hectares of land. Approximately 18 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.

As at 31 December 2012 the Group leased 40 thousand hectares under long-term cancellable lease contracts. The Group had 250 thousand hectares in fully registered ownership.

Thousand hectares of land	31-Dec-12	31-Dec-11
Land in the process of ownership registration with the relevant authorities	18	14
Land in registered ownership	250	260
Land under long-term lease agreements	40	44
	308	318

19 Intangible assets

In thousands of

	RUR 2012	RUR 2011	USD* 2012	USD* 2011
<i>Cost</i>				
Balance at beginning of year	20,391	18,756	672	618
Additions	2,951	4,367	97	144
Disposals	(67)	(2,732)	(2)	(90)
Balance at end of year	23,275	20,391	767	672
<i>Accumulated amortization and impairment</i>				
Balance at beginning of year	(13,546)	(8,420)	(447)	(277)
Amortization expense	(7,355)	(7,853)	(242)	(260)
Disposals	67	2,727	2	90
Balance at end of year	(20,834)	(13,546)	(687)	(447)
<i>Net book value</i>				
At beginning of year	6,845	10,336	225	341
Balance at end of year	2,441	6,845	80	225

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

* The functional and presentation currency for Black Earth Farming is RUR. For the convenience of the users of this report USD amounts are also presented – see note 2 (d).

20 Biological assets

In thousands of RUR

	Crop production (current)	Livestock (non-current)	Total
Balance at 1 January 2011	409,969	19,740	429,709
Increase due to acquisitions	–	74	74
Increase due to incurred expenses	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
Balance at 1 January 2012	532,598	23,514	556,112
Increase due to incurred expenses	2,906,609	12,880	2,919,489
Decrease due to sales	–	(8,759)	(8,759)
Net increase due to births (deaths)	–	175	175
Change in fair value less estimated point-of-sale costs	2,415,201	(1,617)	2,413,584
Harvested crops transferred to inventories	(4,848,280)	–	(4,848,280)
Balance at 31 December 2012	1,006,128	26,193	1,032,321

In thousands of USD*

	Crop production (current)	Livestock (non-current)	Total
Balance at 1 January 2011	13,498	650	14,148
Increase due to acquisitions	–	2	2
Increase due to incurred expenses	77,442	228	77,670
Decrease due to sales	–	(154)	(154)
Net increase due to births (deaths)	–	23	23
Change in fair value less estimated point-of-sale costs	16,966	25	16,991
Harvested crops transferred to inventories	(90,371)	–	(90,371)
Balance at 31 December 2011	17,535	774	18,309
Balance at 1 January 2012	17,535	774	18,309
Increase due to incurred expenses	95,698	423	96,121
Decrease due to sales	–	(288)	(288)
Net increase due to births (deaths)	–	6	6
Change in fair value less estimated point-of-sale costs	79,519	(53)	79,466
Harvested crops transferred to inventories	(159,626)	–	(159,626)
Balance at 31 December 2012	33,126	862	33,988

Current biological assets comprise the planned crop of 2013. The 2013 crop has been seeded during September–November 2012 and therefore, is currently undergoing its planned biological transformation which takes its due course until spring/summer of 2013;

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.

21 Other non-current assets

In thousands of

	RUR 31-Dec-2012	RUR 31-Dec-2011	USD* 31-Dec-2012	USD* 31-Dec-2011
Prepayments for long-term lease	55,787	59,798	1,837	1,969
Prepayments for property, plant and equipment	43,856	62,913	1,444	2,071
Allowance for doubtful debts	(16,052)	(39,920)	(529)	(1,314)
Other non-current assets	5,469	5,855	180	193
	89,060	88,646	2,932	2,919

22 Inventories

In thousands of

	RUR 31-Dec-2012	RUR 31-Dec-2011	USD* 31-Dec-2012	USD* 31-Dec-2011
Finished goods	1,418,118	1,230,856	46,691	40,525
Raw materials and consumables	800,817	679,853	26,366	22,384
	2,218,935	1,910,709	73,057	62,909

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 realizable value according to the accounting policy.

* The functional and presentation currency for Black Earth Farming is RUR. For the convenience of the users of this report USD amounts are also presented – see note 2 (d).

23 Trade and other receivables

In thousands of

	RUR 31-Dec-2012	RUR 31-Dec-2011	USD* 31-Dec-2012	USD* 31-Dec-2011
Trade receivables	394,944	91,222	13,003	3,003
VAT receivables	153,403	187,654	5,051	6,178
Advances paid for goods and services	129,825	188,028	4,274	6,192
Income tax receivable	7,021	4,388	231	144
Other prepayments and receivables	43,969	21,043	1,448	693
Allowance for doubtful debts	(41,860)	(18,261)	(1,378)	(601)
	687,302	474,074	22,629	15,609

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. 2012		12 m. 2011	
	Gross amount	Allowance	Gross amount	Allowance
Current	616,241	–	470,085	–
Past due	112,921	(41,860)	22,250	(18,261)
less than six months	75,064	(4,369)	1,629	(1,515)
over six months	37,857	(37,491)	20,621	(16,746)
	729,162	(41,860)	492,335	(18,261)

In thousands of USD*

	12 m. 2012		12 m. 2011	
	Gross amount	Allowance	Gross amount	Allowance
Current	20,289	–	15,477	–
Past due	3,718	(1,378)	733	(601)
less than six months	2,471	(144)	54	(50)
over six months	1,247	(1,234)	679	(551)
	24,007	(1,378)	16,210	(601)

During 2012, the Group created allowance for doubtful debts amounting to RUR 41,837 thousand (USD* 1,378 thousand). Trade receivables over 180 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 recognized 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 2012	RUR 2011	USD* 2012	USD* 2010
Balance at the beginning of the year	18,261	11,445	601	377
Impairment losses recognized on receivables	41,837	7,750	1,378	255
Amounts written off during the year as uncollectible	(18,238)	(389)	(601)	(13)
Amounts recovered during the year	–	(545)	–	(18)
Balance at the end of the year	41,860	18,261	1,378	601

24 Cash and cash equivalents

In thousands of

	RUR 31-Dec-2012	RUR 31-Dec-2011	USD* 31-Dec-2012	USD* 31-Dec-2011
Bank balances, SEK denominated accounts	1,686,863	30,005	55,539	988
Call deposits, overnight RUR denominated at 5.8–5.9% per annum	750,000	–	24,693	–
Bank balances, RUR denominated accounts	129,782	31,698	4,273	1,044
Bank balances, EURO denominated accounts	36,359	86,958	1,197	2,863
Bank balances, USD denominated accounts	34,686	11,975	1,142	394
Bank balances, POUND denominated accounts	911	163	30	5
Call deposits, overnight RUR denominated at 2–4% per annum	–	532,000	–	16,524
Call deposits, SEK denominated at 2.0–2.6% per annum	–	256,367	–	17,517
Call deposits, EURO denominated at 0.9% per annum	–	33,601	–	1,106
Call deposits, USD denominated at 0.2% per annum	–	2,446	–	81
Petty cash	333	239	11	8
	2,638,934	985,452	86,885	32,446

* The functional and presentation currency for Black Earth Farming is RUR. For the convenience of the users of this report USD amounts are also presented – see note 2 (d).

25 Assets classified as held for sale and Investment property

During the first quarter of 2012 the Group concluded several lease agreements on its land in the Samara region. The said land is not used by the Group in the Group's primary activity which is farming. The Group has classified this land as investment property and consistent with IAS 40 has measured the land at fair value.

Balance cost of investment property In thousands of	RUR 31-Dec-2012	USD* 31-Dec-2012
<i>Cost</i>		
Balance at the beginning of year	–	–
Additions	42,584	1,402
Gain on property revaluation (presented in "other income and expenses")	64,569	2,126
Property reclassified as held for sale	(107,153)	(3,528)
Balance at the end of period	–	–

26 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.

On 22 December 2007, the Company's shares were listed in the form of Swedish Depository Receipts ("SDR") 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.

During the 4th quarter of 2012, the Group completed a rights issue, which entailed an increase in the number of shares, with each share represented by one (1) SDR.

At an extraordinary general meeting held on 13 November 2012 it was resolved to authorize the Board of Directors of the Group to issue up to the maximum number of shares which the Company is authorized to issue as set out in the Memorandum of Association of the Company. As a result, 83,067,778 of new shares were issued, represented by SDRs at a subscription price of SEK 6.38 with preferential rights for the existing SDR holders of BEF. Under the terms of the Rights Issue, three (3) existing SDRs entitled the holder to subscribe for two (2) new shares, each share with a quota value of USD 0.01 and represented by one (1) SDR.

Rights issue proceeds In thousands of	RUR	USD*
Share capital (5,531 SEK'000 at historical rate at transaction date)	25,428	837
Share premium (524,441 SEK'000 at historical rate at transaction date)	2,411,498	79,397
Less transaction costs (in SEK, GBP, USD)	(66,129)	(2,177)
Total	2,370,797	78,057

The Group recognized the following amounts in profit and loss related to investment property:

In thousands of	RUR 12 m. 2012	USD* 12 m. 2012
Rental income from investment property	983	32
Land tax expenses	(983)	(32)
	–	–

During the fourth quarter of 2012, the Group decided to sell certain land plots and concluded a sales and purchase agreement with a purchaser, under which the risks and rewards of ownership will have been transferred to the purchaser in 2013. After the conclusion of the sale and purchase agreement, the Group reclassified these land plots as assets held for sale.

Before the rights issue there were 124,601,667 shares in the Company, corresponding to 124,601,667 votes. Through the rights issue, the number of shares and votes in the Company increased by 83,067,778 bringing the total number of shares and votes in the Company to 207,669,445 after the rights issue.

There are no unpaid shares and the total amount of share capital amounted to RUR 58,349 thousand (USD* 1,921 thousand) as at 31 December 2012.

(b) Share premium

The total share premium amounted to RUR 13,621,100 thousand (USD* 448,466 thousand) as at 31 December 2012.

(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 2012, the Company had an accumulated deficit of RUR 1,491,878 thousand (USD* 49,119 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, except for issued in 2012 with expiry date of 28 June 2016.

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 2012, no warrants were exercised. The Group granted 700,000 warrants to key management. Two employees left the Company, resulting in the forfeiture of 210,000 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. 2012	Number of warrants, in thousands 12m. 2012	Weighted average exercise price 12m. 2011	Number of warrants, in thousands 12m. 2011
	USD 6.94	1,907	USD 7.88	2,207
	SEK 28.53	1,736	SEK 27.23	1,486
Balance at beginning of year		3,643		3,693
Forfeited during the year	USD 0.00	–	USD 9.40	(300)
Forfeited during the year	SEK 31.10	(210)	SEK 34.25	(600)
Granted during the year	SEK 11.24	700	SEK 26.71	850
Balance at end of year		4,133		3,643
	USD 6.94	1,907	USD 6.94	1,907
	SEK 22.25	2,226	SEK 28.53	1,736
Exercisable as at 31 December 2012	USD 6.64	1,697	USD 6.43	1,417
Exercisable as at 31 December 2012	SEK 26.99	850	SEK 21.70	522
		2,546		1,939

* The functional and presentation currency for Black Earth Farming is RUR. For the convenience of the users of this report USD amounts are also presented – see note 2 (d).

The weighted average remaining contractual life for the warrants outstanding as at 31 December 2012 is 3.34 years (31 December 2011: 3.01 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 2009–2012 are denominated in SEK with exercise prices ranging from SEK 11.24 to SEK 39.15.

Inputs into the model	Granted in 2012	Granted in 2011	Granted in 2010	Granted in 2009	Granted in 2008
Fair value at grant date	SEK 3.46	SEK 10.70	SEK 8.72	SEK 5.18	USD 1.44
Share price	SEK 8.50	SEK 22.31	SEK 18.50	SEK 22.90	USD 6.09
Average exercise price	SEK 11.24	SEK 27.37	SEK 26.64	SEK 33.00	USD 8.44
Expected volatility (i)	80%	92%	93%	48%	44%
Option life (expected weighted average life)	2.49	2.23	2.60	3.01	3.50
Expected dividends (ii)	0%	0%	0%	0%	0%
Risk-free interest rate (based on government bonds)	0.94%	1.9%	1.5%	1.7%	2.2%

(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.

Executives share option plan (ESOP)

In 2012, the Group implemented a share option scheme for executives and senior managers of the Group. In accordance with the terms of the plan, as approved by the Board of Directors at an annual general meeting in May of 2012, in order to participate in the plan, the participants must purchase shares (in form of SDRs) in the Group. For each share held under the plan, the Group will grant rights, free of charge, to the participant during a three year period.

The rights granted by the Group shall be governed by the following terms and conditions:

- Granted free of charge after the annual general meeting.
- May not be transferred or pledged.
- Vests after the release of the interim report for the period January – March in the third financial year following the grant of the rights.
- Any dividends paid on the underlying share will increase the number of shares that each retention right and performance right entitles to in order to align the shareholders and the participants' interests.
- Vests provided that the holder has maintained the personal investment during the vesting period ending at the release of the interim report for the period January – March in the third financial year following the grant of the rights and is still employed by the Group during this vesting period.

For each of the following satisfied conditions below (A–E), the participants will receive free of charge one share (SDR) in the Group:

- The participants must still be an employee of the Group at the release of the interim report for the period January–March in the third financial year following the grant of the rights.
- The Group's return on capital (measured as EBIT divided by total assets) averages no less than 10% over the three financial years beginning with the financial year when the rights are granted. In respect of rights granted after 2012, the Board of Directors shall have the right, in its sole discretion, to increase the average percentage for the return of capital referred to above.
- The Group is profitable (based on EBIT) during two of three financial years beginning with the financial year when the rights are granted.
- The Group's total revenues in the third financial year are 75% higher than the total revenues during the preceding financial year when the rights are granted.
- The blended yield of crops over the three financial years, beginning with the financial year when the rights are granted, is 20% higher than blended yield of crops in the preceding life of the Group excluding 2010 and corrected for beet and crop changes.

As at 31 December 2012, the following arrangements existed under the ESOP

Options series	Number purchased	Purchase price, SEK	Expiry date	Number granted	Fair value at grant date, SEK
(1) Granted on 23 October 2012	254,553	12.24	31.03.2015	763,659	12.24
(2) Granted on 4 December 2012	41,667	8.58	31.03.2015	125,001	8.58
(3) Granted on 12 December 2012	216,367	6.38	31.03.2015	649,101	6.38

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

In thousands of	RUR 12 m. 2012	RUR 12 m. 2011	USD* 12 m. 2012	USD* 12 m. 2011
Warrants expense	9,933	25,633	327	844
ESOP expense	3,790	–	124	–
	13,723	25,633	451	844

* The functional and presentation currency for Black Earth Farming is RUR. For the convenience of the users of this report USD amounts are also presented – see note 2 (d).

(e) Earnings per share

The amounts are indicated in

	RUR 12 m. 2012	RUR 12 m. 2011	USD* 12 m. 2012	USD* 12 m. 2011
Profit/ (loss) for the period	217,525,000	(1,342,108,000)	7,161,859	(44,187,971)
Weighted average number of ordinary shares	129,140,890	124,601,667	129,140,890	124,601,667
Effect of dilutive share options	–	1,939,000	–	1,939,000
Weighted average number of shares for the purpose of diluted earnings per share	129,140,890	126,540,667	129,140,890	126,540,667
Basic earnings/ (loss) per share (RUR/share, USD*/share)	1.68	(10.77)	0.06	(0.35)
Diluted earnings/(loss) per share (RUR/share, USD*/share)	1.68	(10.77)	0.06	(0.35)

Additional shares under the existing warrant and executives share option plan (described in note 26 (d)) are antidilutive in accordance with IAS 33 and are not included for purposes of the calculation of dilutive earnings/(loss) per share.

27 Borrowings

The total amount of loans and borrowings was RUR 3,334,432 thousand (USD* 109,784 thousand) as at 31 December 2012. 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-12	RUR 31-Dec-11	USD* 31-Dec-12	USD* 31-Dec-11
Unsecured SEK bonds – at amortized cost	3,321,626	3,418,091	109,362	112,538
Non-current	3,161,767	3,265,713	104,099	107,521
Current	159,859	152,378	5,263	5,017
Unsecured borrowings – at amortized cost	12,806	12,788	422	421
Current	12,806	12,788	422	421
Total borrowings	3,334,432	3,430,879	109,784	112,959

In 2010, the Group issued Bonds with a nominal value of SEK 750,000,000. The Bonds bear an interest coupon of 10%, and are payable annually on the anniversary date (1 July). The Bonds are due to be redeemed on 1 July 2014 and are listed on the Nasdaq OMX Stockholm exchange. As at 31 December 2012, the Group is in compliance with all covenants stipulated in the bond agreement.

During the first quarter of 2012 the Group sold SEK 40.0 million of its bonds that the Group purchased during the first half of 2011. The Group received a total of RUR 183,099 thousand (USD* 6,028 thousand) from the sale.

In December 2012 the Group purchased SEK 68.2 million of its bonds (SEK 65.2 million in principal and SEK 3.0 million of accrued interest) for the consideration of SEK 69.5 million.

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 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 2012, the Group is in compliance with all covenants stipulated in the bond agreement.

28 Trade and other payables

In thousands of

	RUR 31-Dec-12	RUR 31-Dec-11	USD* 31-Dec-12	USD* 31-Dec-11
Trade payables	311,193	170,318	10,246	5,607
Advances received	107,131	72,767	3,527	2,396
Other payables	82,919	64,424	2,730	2,121
Taxes other than on income	44,520	74,073	1,466	2,439
Payable to personnel	10,920	9,546	360	314
Income tax payable	295	72	9	2
	556,978	391,200	18,338	12,879

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.

* The functional and presentation currency for Black Earth Farming is RUR. For the convenience of the users of this report USD amounts are also presented – see note 2 (d).

29 Cash flow hedging reserve

During the fourth quarter 2012 the Group entered into certain derivative financial instruments (non-deliverable forward currency contracts – or NDFs) with SEB bank to hedge against potential fluctuations between the rouble-euro exchange rate. These NDFs will be realized in the 4th quarter 2013. As the majority of the Group's costs are in RUR the management believes it to be prudent to hedge against periodic fluctuations in its export revenue contracts which are denominated in Euros. As such, the Group adopted the accounting policy as per IAS 39 "Financial instruments" to account for such instruments as cash-flow hedges, with the gains and losses of such instruments as of the balance sheet date being

offset against equity as of 31 December 2012. There would have been a gain of 14,148 RUR'000 should the Group have marked to market these instruments. This gain is recognized as other comprehensive income in consolidated statement of changes in equity.

In thousands of	RUR 12 m. 2012	USD* 12 m. 2012
Balance at the beginning of year	-	-
Cumulative gain on non-deliverable forwards	14,148	466
Balance at the end of period	14,148	466

30 Financial instruments

(a) Categories of financial instruments

In thousands of

	RUR 12 m. 2012	RUR 12 m. 2011	USD* 12 m. 2012	USD* 12 m. 2011
<i>Financial assets</i>				
Loans and receivables, including:	3,061,104	1,077,312	100,785	35,470
– Cash and cash equivalents	2,638,934	985,452	86,885	32,445
– Trade and other receivables	422,170	91,860	13,900	3,025
<i>Financial liabilities</i>				
Amortized cost including:	3,656,833	3,604,344	120,399	118,671
– Loans and borrowings	3,334,432	3,430,879	109,784	112,959
– Trade and other payables	322,401	173,465	10,615	5,711

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

Cash and cash equivalents. The credit risk on liquid funds is limited because the counterparties are banks with high credit-ratings assigned by international credit-rating agencies.

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.

Risk concentration. Apart from Company CM Partners, the largest customer of the Group (refer to note 6 (e)), the Group does not have significant credit risk exposure to any single counterparty or any group of counterparties having similar characteristics. Concentration of credit risk related to Company CM Partners did not exceed 10% of gross monetary assets at any time during the year.

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. 2012	RUR 12 m. 2011	USD* 12 m. 2012	USD* 12 m. 2011
Cash and cash equivalents	2,638,934	985,452	86,885	32,445
Loans and receivables	422,170	91,860	13,900	3,025
	3,061,104	1,077,312	100,785	35,470

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

In thousands of RUR

	12 m. 2012		12 m. 2011	
	Gross amount	Impairment	Gross amount	Impairment
Not past due	371,975	–	89,221	–
Past due	56,727	(6,532)	9,797	(7,158)
less than six months	51,299	(1,104)	379	(379)
over six month	5,428	(5,428)	9,418	(6,779)
	428,702	(6,532)	99,018	(7,158)

In thousands of USD*

	12 m. 2012		12 m. 2011	
	Gross amount	Impairment	Gross amount	Impairment
Not past due	12,247	–	2,937	–
Past due	1,868	(215)	323	(236)
less than six months	1,689	(36)	12	(12)
over six month	179	(179)	310	(223)
	14,115	(215)	3,260	(236)

* The functional and presentation currency for Black Earth Farming is RUR. For the convenience of the users of this report USD amounts are also presented – see 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 following are the contractual maturities of financial liabilities, including estimated interest payments and excluding the impact of netting agreements:

31 December 2012 In thousands of RUR	Contractual	Interest rate Effective	Less than 1 year	From 1 to 2 years	From 2 to 5 years	Total
<i>Fixed interest rate instruments</i>						
Loans and borrowings	10%	10.75%	159,858	3,529,691	–	3,689,549
<i>Non-interest bearing</i>						
Trade and other payables			322,401	–	–	322,401
			482,259	3,529,691	–	4,011,950
31 December 2012 In thousands of USD*	Contractual	Interest rate Effective	Less than 1 year	From 1 to 2 years	From 2 to 5 years	Total
<i>Fixed interest rate instruments</i>						
Loans and borrowings	10%	10.75%	5,263	116,213	–	121,476
<i>Non-interest bearing</i>						
Trade and other payables			10,615	–	–	10,615
			15,878	116,213	–	132,091
31 December 2011 In thousands of RUR	Contractual	Interest rate Effective	Less than 1 year	From 1 to 2 years	From 2 to 5 years	Total
<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	Interest rate Effective	Less than 1 year	From 1 to 2 years	From 2 to 5 years	Total
<i>Fixed interest rate instruments</i>						
Loans and borrowings	10%	10.75%	10,429	10,429	114,717	135,575
<i>Non-interest bearing</i>						
Trade and other payables			5,710	–	–	5,710
			16,139	10,429	114,717	141,285

(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 optimizing the return.

The current market risk faced by the Group is further described in note 32 (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 SEK currency risk; however, the Group has sufficient SEK-denominated cash 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 2012	RUR 2011	USD* 2012	USD* 2011
USD/RUR	(64,404)	(20,637)	(2,120)	(679)
EUR/RUR	94,332	178,532	3,106	5,878
SEK/RUR	(1,633,852)	(3,131,556)	(53,793)	(103,104)

The following significant exchange rates applied during the year:

	RUR Rate at 31 December 2012	RUR Average rate for the year 2012	RUR Rate at 31 December 2011	RUR Average rate for the year 2011
1 USD	30.3727	31.0615	32.1961	29.3874
1 EURO	40.2286	39.9010	41.6714	40.8848
1 SEK	4.6688	4.5873	4.6612	4.5253

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 2011.

In thousands of	RUR Equity	RUR Profit or loss	USD* Equity	USD* Profit or loss
2012				
USD	(6,440)	(6,440)	(212)	(212)
EURO	9,433	9,433	311	311
SEK	(163,385)	(163,385)	(5,379)	(5,379)
2011				
USD	(2,064)	(2,064)	(68)	(68)
EURO	17,853	17,853	588	588
SEK	(313,156)	(313,156)	(10,310)	(10,310)

* The functional and presentation currency for Black Earth Farming is RUR. For the convenience of the users of this report USD amounts are also presented – see note 2 (d).

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 favorable 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 27), cash and cash equivalents (note 24) and equity, comprising issued capital, reserves and retained earnings (note 26).

The company and its subsidiaries are subject to capital requirements stipulated in the bond agreement (note 27).

31 Operating leases

Non-cancellable operating lease commitments are as follows:

In thousands of

	RUR 12m. 2012	RUR 12m. 2011	USD* 12m. 2012	USD* 12m. 2011
Not later than one year	35,803	32,349	1,179	1,065
Later than 1 year and not later than 5 years	112,597	54,041	3,707	1,779
Later than 5 years	590,254	295,074	19,434	9,715
	738,654	381,464	24,320	12,559

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. During the current year, RUR 39,222 thousand (USD* 1,291 thousand) of rent expense was recognized in profit and loss in respect of operating leases.

32 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.

(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:

	2012	2011
Loans and borrowings	10.75%	10.75%

(b) 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 commodities 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.

Risk of 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 functional and presentation currency for Black Earth Farming is RUR. For the convenience of the users of this report USD amounts are also presented – see note 2 (d).

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.

(c) Commitments for expenditure

In thousands of

	RUR 12 m. 2012	RUR 12 m. 2011	USD* 12 m. 2012	USD* 12 m. 2011
Commitments for acquisition of raw materials	178,302	79,826	5,870	2,628
Commitments for lease agreements	35,803	32,349	1,179	1,065
Commitments for acquisition of property, plants and equipment	–	211,037	–	6,948
	214,105	323,212	7,049	10,641

33 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. 2012	RUR 12 m. 2011	USD* 12 m. 2012	USD* 12 m. 2011
<i>Purchase of services from related parties</i>				
KinnAgri Ltd (i)	36,508	38,498	1,202	1,268
KCM international (ii)	25,170	–	829	–
Audit Value International	4,707	6,138	155	202
Kinnevik AB Investment	–	123	–	4
	66,385	44,759	2,186	1,474
<i>Interest accrued and paid</i>				
Kinnevik AB Investment	11,311	–	372	–
Vostok Komi (Cyprus) Ltd	11,287	–	372	–
	22,598	–	744	–
<i>Accounts payable owed to related parties</i>				
KCM international (ii)	5,632	–	185	–
KinnAgri Ltd (i)	4,838	13,704	159	451
	10,470	13,704	344	451

- (i) KinnAgri Ltd provided consultancy services including crop production planning and review, harvest and storage logistics as well as organizational training and education. All contracts have been scrutinised for arms length and have been approved by the members of the Board of Directors independent from Kinnevik.
- (ii) KCM international provided consultancy services related to the Company's internal R&D function and crop management practices. All contracts have been scrutinized for arms length and have been approved by the members of the Board of Directors independent from Kinnevik.

The Company's major shareholder Investment AB Kinnevik as well as CEO Richard Warburton have direct and/or indirect shareholder interests in KinnAgri Ltd and KCM International.

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.

* The functional and presentation currency for Black Earth Farming is RUR. For the convenience of the users of this report USD amounts are also presented – see note 2 (d).

Salaries and other remuneration for Directors and other senior executives

In thousands of RUR

	12 m. 2012 Board of directors (6 positions)	12 m. 2012 Senior executives (10 positions)	12 m. 2011 Board of directors (6 positions)	12 m. 2011 Senior executives (11 positions)
Salaries and bonuses	10,497	74,479	10,264	62,588
Share-based payments	6,174	7,974	7,420	18,213
Termination payments	—	864	—	21,535
Assessments to the State Pension Fund	—	1,995	—	399
Total	16,671	85,312	17,684	102,735

In thousands of USD*

	12 m. 2012 Board of directors (6 positions)	12 m. 2012 Senior executives (10 positions)	12 m. 2011 Board of directors (6 positions)	12 m. 2011 Senior executives (11 positions)
Salaries and bonuses	346	2,452	338	2,061
Share-based payments	203	263	244	600
Termination payments	—	28	—	709
Assessments to the State Pension Fund	—	66	—	13
Total	549	2,809	582	3,383

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

In thousands of

	RUR 31-Dec-12	RUR 31-Dec-11	USD* 31-Dec-12	USD* 31-Dec-11
ASSETS				
Non-current assets				
Loans issued	14,033,626	13,628,046	462,047	448,694
Total non-current assets	14,033,626	13,628,046	462,047	448,694
Current assets				
Trade and other receivables	6,102	7,475	201	246
Cash and cash equivalents	1,753,342	345,430	57,728	11,373
Total current assets	1,759,444	352,905	57,929	11,619
Total assets	15,793,070	13,980,951	519,976	460,313
EQUITY AND LIABILITIES				
Equity				
Share capital	58,349	32,921	1,921	1,084
Share premium and reserves	13,813,020	11,453,920	454,784	377,112
Accumulated deficit	(1,491,878)	(965,460)	(49,119)	(31,787)
Total equity	12,379,491	10,521,381	407,586	346,409
LIABILITIES				
Non-current liabilities				
Non-current loans and borrowings	3,161,767	3,265,713	104,099	107,521
Total non-current liabilities	3,161,767	3,265,713	104,099	107,521
Current liabilities				
Current loans and borrowings	159,859	157,407	5,263	5,183
Trade and other payables	91,953	36,450	3,027	1,200
Total current liabilities	251,812	193,857	8,291	6,383
Total liabilities	3,413,579	3,459,570	112,390	113,904
Total equity and liabilities	15,793,070	13,980,951	519,976	460,313

The Company's loss for the year was RUR 526,418 thousand or USD* 17,332 thousand (2011: loss was RUR 671,552 thousand or USD* 22,110 thousand).

* The functional and presentation currency for Black Earth Farming is RUR. For the convenience of the users of this report USD amounts are also presented – see note 2 (d).

35 Significant subsidiaries

List of significant subsidiaries (total number of subsidiaries equals 43) is presented below.

	Country of incorporation	Ownership and voting interest		Principal activity
		31-Dec-12	31-Dec-11	
Planalto Enterprises Limited	Cyprus	100%	100%	Management
OOO Management Company Agro-Invest (Moscow)	Russia	100%	100%	Management
OOO Nedvizhimost'	Russia	100%	100%	Elevators
OOO Agroterminal	Russia	100%	100%	Elevators
ZAO Dmitriev Agro-Invest	Russia	100%	100%	Agriculture
OOO Sosnovka Agro-Invest	Russia	100%	100%	Agriculture
OOO Stanovoje Agro-Invest	Russia	100%	100%	Agriculture
ZAO Kastornoje Agro-Invest	Russia	100%	100%	Agriculture
OOO Podgornoje Agro-Invest	Russia	100%	100%	Agriculture
OOO Agrolipetzk	Russia	100%	100%	Agriculture
OOO Novokhopersk Agro-Invest	Russia	100%	100%	Agriculture
OOO Kalach Agro-Invest	Russia	100%	100%	Agriculture
OOO Morshansk Agro-Invest	Russia	100%	100%	Agriculture
OOO Storozhevoye Agro	Russia	100%	100%	Agriculture

36 Subsequent event

As described in note 25 the Group decided to sell land plots in the Samara region and entered into a sales and purchase agreement, with the actual sale finalization expected in 2013. As of the date of publication of this report the obligations of the purchaser under the sale and purchase agreement have not yet been discharged.

Finished goods prices in the 1st quarter of 2013 are stable, and the management does not believe that there is a risk of significant gains or losses as a result of a change in finished goods prices from 31 December 2012 to the date of this report.

* The functional and presentation currency for Black Earth Farming is RUR. For the convenience of the users of this report USD amounts are also presented – see note 2 (d).

Board, Management and Auditors

BOARD OF DIRECTORS

Vigo Carlund, *Chairman of the Board*

Swedish citizen, born in 1946

Mr. Carlund is a Swedish citizen born 1946. He has been Director of the Board of Investment AB Kinnevik since 2006 and is Chairman of the Board of Net Entertainment NE AB since 2011. He also serves as Director of the Board of Academic Work Solutions since 2006 and IZettle AB since 2010. Mr. Carlund worked within the Kinnevik Group 1968–2006 and was CEO of Korsnäs AB 1998–2000, and President and CEO of Transcom WorldWide S.A. 2000–2002 and Kinnevik 1999–2006.

Shareholdings: 407,311 SDRs*

Per Brilioth, *Non-Executive Director*

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 a member of the Board of Directors of RusForest AB, Egidaco Investments PLC, Avito Holdings AB, Kontakt East Holding AB, X5 Group AB and Svenska Fotografiska museet AB.

Shareholdings: 176,666 SDRs*

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 Betfair. 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 NDS Group Limited, 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 Telecommunication Europe, BT Cellnet and Motorola NGM.

Shareholdings: 0 SDRs

Warrants: 100,000**

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 Georgetown University in Washington D.C. and the 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 chairman of the board of directors of Duego Technologies AB, Milvik AB, Kontakt East Holding AB, Avito Holding AB and Saltside Technologies AB as well as a member of the board of directors of Mellersta Sveriges Lantbruksaktiebolag, Emesco Aktiebolag, CDON Group AB, Förvaltningsaktiebolaget Eris & Co, Aktiebolaget Karlskrona Lampfabrik, Relevant Trafic Sweden AB, Millcellvik AB, Relevant Traffic Europe AB, Kinnevik New Ventures AB, Vosvik AB, Vireo Energy AB, Guider Media Group Europe AB, Kinnevik Online Ventures AB, Kinnevik Agri AB, Digital Agency Ryssland AB, Avitohi JV AB, Kinnevik Online Holding AB and Avito Bara AB.

Shareholdings: 6,666 SDRs

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

Danish citizen, born in 1944

Principal education: Mr. Schroeder is a graduate in economics from the Aarhus Business 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 Directors of AlphaCapita and Dan Store.

Shareholdings: 130,000 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 the 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 Directors of Lundin Petroleum AB and Otirol Art AB.

Shareholdings: 250,000 SDRs

* SDRs held via an insurance policy

** Prior to full adjustment to warrants following the SEK 530 million rights issue completed in December 2012

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 as well as an MBA from Open University.

Work experience: Mr. Warburton is CEO of KinnAgri Limited and a Director of KCM International and Rolnyvik Sp. z.o.o., all of which are companies in the Investment AB Kinnevik group, as well as a member of the investment committee to funds run by Northbridge Capital Partners. Mr. Warburton was previously head of agriculture at Investment AB Kinnevik. He has also been Equity Partner and Head of Agribusiness Bidwells 1999–2010 and a Director of British Field Products 1994–1998.

Shareholdings: 430,000 SDRs

Warrants: 749,999**

GROUP MANAGEMENT**Richard Warburton, Chief Executive Officer**

See also “Board of Directors” above.

Fraser Scott, Chief Operating Officer

British citizen, born in 1961

Principal education: Mr. Scott holds a Bachelor of Science 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: 96,215 SDRs

Warrants: 199,998**

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. He is also a member of the Canadian Institute of Chartered Accountants.

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: 66,666 SDRs

Warrants: 200,000**

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: 20,833 SDRs

Warrants: 99,999**

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 previously held the position of Director for Investor Relations in Black Earth Farming Limited. He has formerly worked for the Russia-focused investment company Vostok Nafta Investment Ltd. and Svenska Handelsbanken in Moscow and has additional experience from the finance and consulting sector in Sweden.

Shareholdings: 0 SDRs

Warrants: 249,999**

Erik Lystedt, Director of Investor Relations

Swedish citizen, born in 1984

Principal education: Mr. Lystedt holds a Master of Science in Business and Economics 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

Warrants: 9,999**

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, Diligentia, 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.

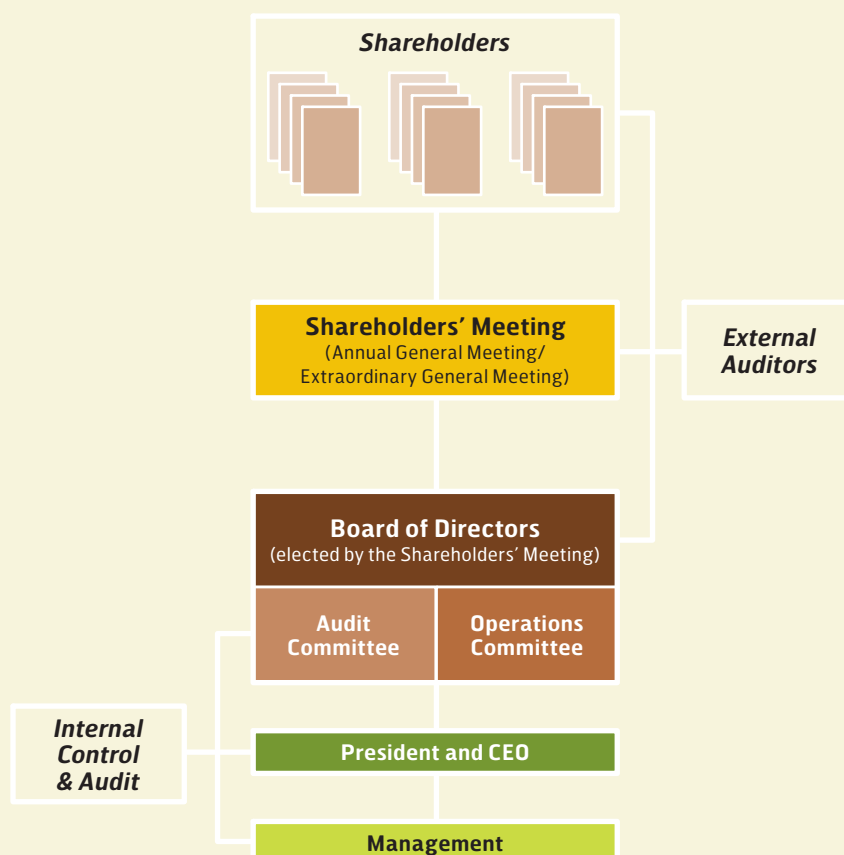
Srbuhi Hakobyan

Mrs. Hakobyan is a citizen of the Republic of Armenia, born in 1966.

Principal education: Mrs. Hakobyan holds an MBA degree from American University of Armenia, ACCA member since 2002. Deloitte are the appointed auditors since 2008. Among other entities Mrs. Hakobyan is the lead auditor of Russian Sea Group, Polyplastic Group, EPK Group. She has no engagements in entities related to the main owners of Black Earth Farming Ltd. or the CEO of Black Earth Farming Ltd.

** Prior to full adjustment to warrants following the SEK 530 million rights issue completed in December 2012

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 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 2012, Black Earth Farming held the Annual General Meeting on 25 May 2012 at Storgatan 19 in Stockholm, Swe-

den. 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 2011, as well as balance sheet and the consolidated balance sheet as of 31 December 2011, 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 2011.

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 2012 Annual General Meeting, a Nomination Committee consisting of members representing the three largest shareholders in the Company per the last business day in August 2012 was appointed. The Nomination Committee for the 2013 AGM is comprised of Per Brilioth, on behalf of Vostok Nafta Investment Ltd, Anders Kronborg, 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 2012 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 Direc-

tors (other than any alternate Directors) shall be two. At the AGM 2012 it was resolved that the Board until next AGM shall consist of 7 members.

At the 2012 AGM Per Brilioth, Henrik Persson, Alex Gersh, Poul Schroder, Richard Warburton and Magnus Unger were re-elected. Sture Gustavsson declined re-election and Vigo Carlund was elected as a new member of the board and appointed chairman. For a detailed presentation of the current Board, until the AGM 2013, 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. 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 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 2012, sixteen Board meetings were held, whereof seven were held with personal attendance, the rest were held by means of telephone conferencing.

Name	Title	Born	Nationality	Elected	Connection to the company	Audit committee	Board meeting attendance	SDR holdings	Warrant holdings	Board fee, TEUR
Vigo Carlund	Chairman of the board	1946	Swedish	2012	Independent		8	407,311*	0	60
Per Brilioth	Non-executive Director	1969	Swedish	2006	Main owner		16	176,666*	0	40
Alex Gersh	Non-executive Director	1964	American	2007	Independent	Chair	8	0	100,000	60
Henrik Persson	Non-executive Director	1974	Swedish	2006	Main owner	member	12	6,666	0	40
Poul Schroder	Non-executive Director	1944	Danish	2010	Independent		16	130,000	0	60
Magnus Unger	Non-executive Director	1942	Swedish	2010	Independent	member	16	250,000	0	40
Richard Warburton	President and CEO	1966	British	2010	Management		16	430,000	749,999	0
Number of meetings in 2012							4	16		

* SDRs held via an insurance policy

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- an 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 2012 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. Vigo Carlund was elected chairman of the Board at the AGM held on 25 May 2012. 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 2012

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 2012, 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 2012

The operations committee consists of two board members, namely Poul Schroder as chairman and Richard Warburton. In 2012, 3 formal meetings were held by the operations committee together with senior management in addition to numerous telephone conference calls 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 compli-

ance 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 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 board, the operations committee and the audit committee, who each receive EUR 60,000. Richard Warburton was paid salaries as management and received no additional board fees. EUR 10,000 is 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 com-

Name	Born	Nationality	Employed	Function	SDR holdings	Warrant holdings*	Average strike price*
Richard Warburton	1966	British	2011	Chief Executive Officer	430,000	749,999	SEK 18.6
Fraser Scott	1961	British	2011	Chief Operating Officer	96,215	199,998	SEK 27.5
Alexander Betsky	1969	Canadian	2011	Chief Financial Officer	66,666	200,000	SEK 18.9
Richard Willows	1953	British	2011	Director of Sales & Marketing	20,833	99,999	SEK 27.5
Gustav Wetterling	1981	Swedish	2007	Director of Procurement	0	149,999 100,000	SEK 29.8 USD 10.3
Erik Lystedt	1984	Swedish	2010	Director of Investor Relations	0	9,999	SEK 26.6

* Prior to full adjustment to warrants following the SEK 530 million rights issue completed in December 2012

pensation package that is competitive and motivating, will attract and retain qualified executives, and encourage and motivate performance. As stated in Note 33 to the Consolidated Financial Statements, in 2012 total fixed salaries and bonuses to senior executives amounted to USD* 2,809 thousand, of which USD* 773 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, 2,546,000 have as of 31 December 2012 been issued for nil consideration to Directors and senior executives and other key personnel. 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. 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. The warrants are transferable to a maximum of 30 warrant holders. Following the Rights Issue completed in December 2012 warrants issued prior were adjusted according to the Swedish standard so that warrant holders maintain their pro rata holding. According to the standard and prepared by a third party, warrants issued prior to the rights issue were adjusted giving the holder the right to acquire 1.195 SDRs and the strike price multiplied by 0.837. At full exercise of all approved 10,000,000 warrants, the Company's share capital will be increased by USD 100,000.

Executives share option plan (ESOP)

At the AGM on 25 May 2012 a performance based incentive plan for senior executives was approved. In order to participate in the plan, the participants must purchase shares (in form of SDRs) in the Group. For each share held under the plan, the Group will grant rights to the participant based upon if performance criteria relating to the development of BEF's return on capital, profitability, revenue growth and average crop yields during a three year period until March 2015. For a full details please refer to note 26 d) in the Consolidated Financials of the 2012 Annual Report or the notice to the 2012 AGM. As at 31 December 2012 1,537,761 rights had been granted which may result in a maximum of 1,537,761 shares being issued in 2015 depending on fulfilment of the aforementioned criteria.

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 2012 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, Diligentia, 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.

Srbuhi Hakobyan

Mrs. Hakobyan is a citizen of the Republic of Armenia, born in 1966.

Principal education: Mrs. Hakobyan holds an MBA degree from American University of Armenia, ACCA member since 2002. Deloitte are the appointed auditors since 2008.

Among other entities Mrs. Hakobyan is the lead auditor of Russian Sea Group, Polyplastic Group, EPK Group. She 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 2012 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. Special focus is also put on making sure that the requirements and routines for the accounting procedure, including consolidation 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 a significant 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 current 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 the consideration of social responsibilities such as working 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, minimum tillage and employing a long term crop rotation system to minimize erosion and conserve soil and water resources. In addition it also incorporates good and efficient overall management with sound financial planning and efficient risk management practices.

BEF's Social Responsibility

Black Earth Farming's has brought substantial areas of fallow arable land back into production. The company effectively taps unused resources for food production, which is a necessity to meet the demand from 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 and community neighborhoods but also helps them develop. The focus on redevelopment of fallow land creates new job opportunities with stable and relatively high means of income. Employee safety is of high concern and regular training sessions and seminars are conducted regularly. The company contributes to local communities both through its 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.

The world's forests and other natural ecosystems must be conserved, but at the same time feed an increasing population. To achieve this the productivity of current land resources needs to increase. This will reduce the pressure to clear forestland in other places to meet food demand, and so help 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 to 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 for local districts, and creating value for shareholders. To a large extent the economic sustainability of the business is a product of mutually beneficial relationships with various stakeholders to grow and prosper together. Good and beneficial relationships are built by a high level of professionalism, integrity and business ethics in the way the company operates and interacts. 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.

CPT

Carriage Paid To – A trade term where the seller pays for carriage to the named place of destination. Risk transfers to the buyer upon handing goods over to the first carrier at place of shipment

“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.

EXW

Ex Works – A trade term requiring the seller to deliver goods at his or her own place of business. All other transportation costs and risks are assumed by the buyer.

“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.

“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.

“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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